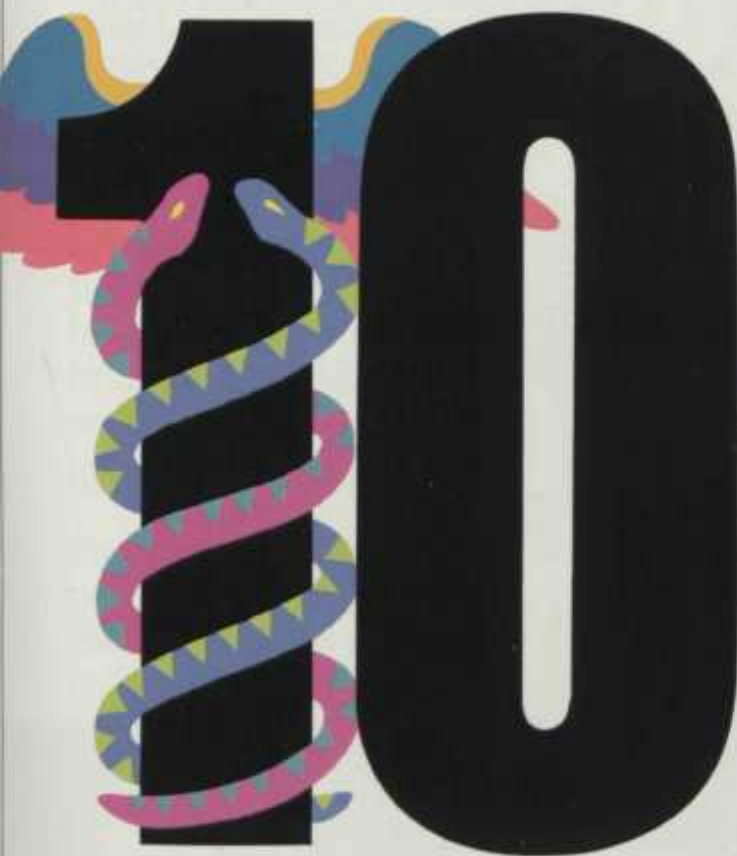


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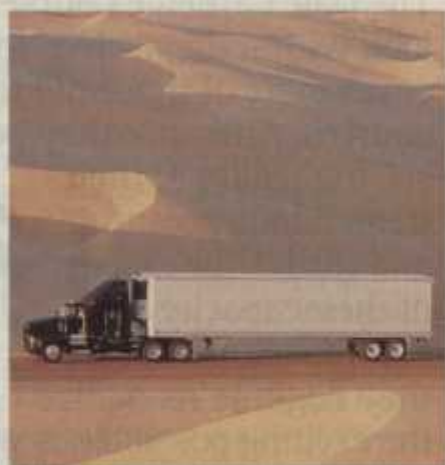
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Nation's Business



ILLUSTRATION: SHARON COHEN

Health insurance isn't as simple as it used to be. The accelerating pace of change offers fresh options and new hope for a truce in the battle that business has been waging against exploding health-care costs. Cover Story, Page 20.



Heavy haulers to minivans—they're described in our annual new-trucks survey. Special Report, Page 30.

COVER STORY

20 Ten Ways To Cut Your Health Costs Now

Skyrocketing costs for employee health coverage can be brought back to earth. You have to learn how the system works and discover your options for curbing health-care increases. These suggestions can help you take that kind of action.

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ENTERPRISE

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Successful enterprises will share their winning strategies with all small businesses in this new venture launched by Connecticut Mutual and endorsed by the U.S. Chamber of Commerce.

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Improvements from bumper to bumper are making trucks more affordable and versatile, especially for smaller businesses, and competitiveness is squeezing prices. Here are many of the latest models.

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What are an employer's responsibilities to employees who are military reservists called to active duty? Re-employment without loss of seniority is the key guarantee, but there are others as well.

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Most Americans think public schools fail to prepare students for today's—and tomorrow's—jobs and that business has a role to play in reforming education, according to a Roper poll for the Center for Workforce Preparation and Quality Education.

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46 Redrawing The Battle Lines

Congressional redistricting next year will affect politics for a decade. To ensure that it is fairly represented in Congress, business must become involved in the redistricting process.

WHERE I STAND

72 Economic Outlook For 1991

The findings of this survey of our readers' expectations for the economy will be included in our January cover story on the outlook for small business next year. It covers such areas as sales, interest rates, capital expenditures, and the work force.

Published by
the U.S. Chamber of Commerce
Washington, D.C.

Editor's Note

Health-Insurance Prescriptions



PHOTO: ©BOB DACHMURCH

Entrepreneur Ernestine Galindo built a tiny tortilla firm into a \$6 million company. Making It, Page 14.

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Cover Design: Hans A. Baum/Angela Reed Breese
Cover And Cover Story Illustrations: Sharon Cohen

When asked to identify their most difficult challenges, most businesses will put the increasing cost of health insurance at or near the top. That's true whether the company is a small one like that owned by the Leber family in Hatfield, Pa., shown in the photo, or has hundreds of thousands of employees. All firms seem to face a continuing cycle of cost increases for medical services followed by higher insurance premiums to cover those costs. The result can be a sense of frustration and helplessness.

Advocates of nationalized health insurance are trying to exploit that reaction. But experience shows that nationalized health systems not only have their own high costs financed by taxes but also add the burden of government bureaucracy to the medical system.

The most effective counterattack that American businesses can make is an aggressive plan to cut costs within the existing private system. This month's cover story offers specific steps for doing just that. And a report on how Philip Leber dealt with a health-insurance problem that threatened the survival of his business appears on Page 26.



PHOTO: T. MICHAEL KIZA

You'll have a special interest in the awards program announced in the article on Page 56. This plan, sponsored by the Connecticut Mutual Life Insurance Co. and endorsed by the U.S. Chamber of Commerce, will identify "Blue Chip" small businesses that will, in turn, share their winning techniques with all smaller firms. Your company can be entered for the judging for state and national honors and, even if not selected, will benefit from reports on how the Blue Chip firms overcame challenges that most entrepreneurs face. This program will be a major new source of advice for small-business growth. Check out the details.

Robert T. Gray
Robert T. Gray
Editor

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He published 56 books. saved his country. Not ba

The ability to do more than one thing well is often the difference between competence and excellence.

In the case of Winston Churchill, it was the difference between excellence and brilliance.

As a war correspondent he won renown for his courage,

escaping from a Boer prison camp in South Africa and crossing 300 miles of enemy territory. As the Colonial Secretary in the 20's, he founded Jordan, Iraq, and the Irish Free State.

As a historian he won the first Nobel Prize for Literature ever awarded for the quality of the *spoken* word as well as the written word.

As a politician he personified the will of a nation, leading Britain to her finest hour.



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And at his truest love—painting—his talent surprised the critics and his landscapes were hung in the prestigious Royal Academy of Arts.

Yet it wasn't any one of those abilities, but all of them brought together, that made Churchill the stuff of which legends are born.

And if you understand how that combination of truly remarkable talents can lead to excellence, you'll understand the vision of BellSouth.

Individually, the companies of BellSouth are counted among the best in their field. And when brought together to help you, they can provide

integrated solutions to a surprising variety of problems.

Senior industry executives named BellSouth the most admired telecommunications company

in America for the past two years in an annual *Fortune* magazine survey. Which means if you're looking at your own business and personal communications needs, the companies of BellSouth may be just the kind of partner you're looking for.

After all, when you can surround a problem with remarkable talent, successful solutions can't be far away.

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Letters

The Business Agenda

You are right on target with "Preserving Jobs And Productivity" [an article in the September cover package, "A Business Agenda For The 1990s"]. Employee retention and productivity are critical concerns for the 1990s.

It's true that executives and managers are behind in planning for changes in our work force.

We sense the awareness rising, however. Wise business leaders are seeking answers, but most don't feel the urgency yet.

Companies that want to thrive as we move into the next century must focus on the people issues now. Employee retention should be part of their corporate strategy. Loyalty is no longer a "given"—it must be earned.

*Roger E. Herman
Chief Executive Officer
Herman Associates Inc.
Rittman, Ohio*

Women At Work

In the article "Making An Impact On The Workplace" [Women In Business, August], entrepreneur Susan Hager says, "We equate the 100-hour work-week with insanity."

I agree that people who are willing to work 100 hours in a week do not have much balance in their lives, and I agree with other points in her article as well. I contend, however, that the 100-hour-per-week worker, in many cases, has reasons for not wanting to be at home. Work can be the greatest excuse in the world.

Work, to many people, becomes a form of therapy and an escape from harsh realities that are far more difficult to handle than the normal activities of the workplace.

*Louis E. Roussey
Vice President, Personnel
La-Z-Boy Chair Co.
Monroe, Mich.*

We were delighted with "Making An Impact On The Workplace." It captures succinctly many of the key points that

the National Foundation for Women Business Owners hopes to make as we showcase the innovative management approaches pioneered by women business owners.

One of our goals is to foster an exchange of information on leadership styles between women entrepreneurs and the business community at large.

However, I am disappointed that the

National Foundation for Women Business Owners was not credited for developing and presenting the symposium. We conceived the idea for the symposium, prepared and submitted the winning proposal, and then orchestrated the panel of women business owners. We would have liked to have at least equal credit with the spon-

sors of the conference.

*Sharon G. Hadary
Executive Director
The National Foundation For
Women Business Owners
Washington, D.C.*

Wetlands' Impact

As an entrepreneur, I think *Nation's Business* is great.

Unfortunately, in your August issue [Congressional Alert], the "Wetlands Policy's Business Impact" commentary bothered me. You called for a balance between environmental concern and economic growth so as not to adversely affect activities such as farming, ranching, forestry, coastal development, water management, electric utilities, and siting of manufacturing plants.

America's wetlands have already been drained severely, and this draining has caused immense financial costs when you consider the damage of flooding, farm subsidies, tax loopholes, and water purification. Clean water is a scarce resource, and America's remaining wetlands are nature's water purifiers. We do not need fewer wetlands—we need more.

*Thomas K. Yseth
South Dakota State Steering
Chairman
North American Waterfowl Plan
Brookings, S.D.*



Proposals For Pruning Postal Costs

I am a strong advocate for self-service post offices open 24 hours a day, 365 days a year, to help hold down spiraling labor costs.

We pump gas into our cars. We dial our own telephone calls. We push buttons in elevators. We buy milk in stores in lieu of retail home delivery.

We now have some post office lobbies open 24 hours a day and equipped for us to mail letters and packages. A scale weighs the package and tells us the postage. A machine changes a dollar bill into four quarters. A machine dispenses stamps, and the package is put through a door to the back room.

Let us do for ourselves what we can!

We'll get better service, using fewer employees (by attrition; no hire, no fire), reduce labor costs, lower health-insurance premiums (fewer people).

Let's try!

Ronald W. Butterfield
Butterfield Insurance Agency
Kingston, Mass.

Why not make postage stamps available to companies as an advertising medium, starting initially with first-class postage?

Advertisers would pay to put their messages on the commercial stamps, which then could be purchased for considerably less than stamps with the traditional design.

I can visualize it now: stamps in the color and shape of a beer can or a soft drink or a fast-food logo.

When major advertisers learn of the billions of pieces of first-class mail that are distributed in this country, advertising support could be overwhelming.

Roger H. Franzke
Senior Vice President
Bank IV
Topeka, Kan.

The Check Is In The E-Mail?

I enjoyed Jill MacNeice's article, "Calls By Computer," [July] on electronic mail, or E-mail.

Standards that allow exchange of

mail among diverse public and private E-mail networks are already established and provide links among MCI Mail, AT&T Mail, CompuServe, and many international public E-mail services.

What's still needed is widespread implementation of standards for E-mail directories. These are being developed and eventually will let users of one E-



PHOTO: ©PATRICK MCGARE—U.S. POSTAL SERVICE

Self-service postal service, like the kind dispensed by machines round-the-clock in this post office lobby, could cut costs.

mail service look up the addresses of users on other networks.

For the time being, we have to know the complete, exact addresses of users on other networks—and type them exactly right—or the mail won't go through.

These things aside, what often impedes E-mail progress is lack of word processing, typing, editing, and/or writing skills among potential users. This can be a much more personal and political problem than any technological issues, and it cannot be addressed by technology alone, no matter how useful or easy to use.

Despite its shortcomings, E-mail can be the most valuable business asset since the desktop computer.

Michael Dortch
San Francisco

[Editor's Note: Michael Dortch is the author of The ABCs of Local-Area Networks, published by Sybex, Inc., and he is the managing editor of CONNECT, a computer-networking magazine.]

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Persevere, But Be Flexible

By L.J. Rocklin



When I graduated with a degree in mechanical engineering from the University of Iowa in 1930, I had to scrounge for jobs—the Great Depression was under way and growing worse. But struggling through that period taught me how important it is to be versatile, change with the times, and pay attention to the marketplace.

My jobs in industry for the first few years were brief and separated by idle periods. I was, among other things, a design engineer, draftsman, time-study man, furnace salesman, air-conditioning engineer, and steel and foundry salesman. When I decided to start my own manufacturing business, I had almost no money.

I rented space in the Sioux City, Iowa, foundry where I had worked, and I started making a coal stoker from patterns one of my old college teachers had made. I jobbed out the machining and fabricating work and sold a few stokers in 1934 and 1935.

To keep busy in the summer, I designed and built a portable, ice-cooled room air conditioner, which I sold through the ice industry. Fortunately, I started in 1936—a year with one of the hottest summers on record.

When mechanical refrigeration ended the ice cooling business, I moved on to make a tractor-mounted crosscut log saw. Once again, I had others build the products, and I sold them to farmers and farm-implement dealers.

As electrification spread throughout rural communities, I saw possibilities for other products. For example, I designed and contracted with others for the manufacture of an adapter to enable a pump to be powered by an electric motor rather than by a windmill.

I also built an electric float switch for use on a stock tank to provide a steady water supply to cattle on a farm.

Eventually, I bought a lathe, drill press, and welder, and I rented space in an old factory in Sioux City. I would go out to sell in the nearby territory during the week and come back home on the weekend to help my lone machinist assemble, pack, and ship the orders. In 1939, though in debt, I married, figuring that if we could take \$39.60 (\$40 minus 40 cents for Social Security) a week out of my business, it would get us by. We lived from order to order.

The big change for my business came with government arms production in World War II. The Iowa Transmission Co., a subsidiary of Deere and Co. in Waterloo, Iowa, had a contract for transmissions for the M-4 armored tank and wanted to parcel out work to other manufacturers. This

was a gigantic prospect for my one-man firm, yet I was determined to try. I made a bid on tank transmission covers and steering brake shoes. My bid depended on acquiring lathes, planers, boring mills, and drill presses, which I knew could be obtained from an Illinois foundry being sold to settle an estate. I described my plight to my banker. He said that when the machines were bought, loaded, and shipped to Sioux City, he would advance me the money against the Iowa Transmission Co. order. The order would be valid when I had the bill of lading showing the machinery was on its way. The estate's executor agreed to let me load if payment would be made in full upon its arrival in Sioux City. The trucker took my word for all of it, and we loaded the equipment.

When I went to pick up my \$100,000 order, the purchasing agent told me he couldn't give it to me. He said the company's manufacturing engineers couldn't see how I could profitably do the machining work at my bid price. If I went broke, their work would be held up because of a lack of supplies from me. He offered to raise my bid to the level of the next higher bidder, but I declined; I had confidence in my bid. I did say I would take his offer and raise the bid price if my figures proved wrong.

I never raised the price; on the contrary, I gave reductions on every repeat order. As I expanded my plant, I took on more war work, all on a bid basis, all delivered on time and to specifications, for a host of manufacturers.

After the war, I kept the business moving ahead by designing my own parts and diversifying my market. With growth, however, a new problem developed, and my solution became the

core of our family business today. I needed total output of all machines all the time, but I was running into much downtime because cutting tools often needed regrinding. I searched for a way to get more out of the tools before they had to undergo the time-consuming steps of regrinding, set-up, and inspection.

I designed a unit and a process to increase the productivity and reduce the costs of high-speed cutting tools, dies, drills, and other manufacturing machinery subject to wear. The unit melts infinitesimal particles of a tool's metal surface and electronically infuses wear-resistant tungsten carbide into the surface to increase the tool's useful life. I proudly put my name on the unit—the Rocklinizer—and the process, known as "Rocklinizing." Its success is attested to by the many firms that have used the process on their tools.

During my business life, I've learned that flexibility and the willingness to stick to a task that you believe in are the most important characteristics of an entrepreneur. If you love what you do, believe in it, and strive for excellence, who can stand in your way? **■**



L.J. Rocklin's company, Rocklin Manufacturing, is based in Sioux City, Iowa.

Readers are invited to contribute to *Entrepreneur's Notebook*. Write to: Editor, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

Managing Your Small Business

Help for cash-flow woes, new thoughts on business plans, and tips for trashing waste.

By Bradford A. McKee

ECONOMY

The Outlook Grows Grim

Small firms face a tougher economy this fall. Effects will be felt the most in the industrialized north and in areas where defense-industry companies are centered, says economic forecaster Christopher Caton of DRI/McGraw-Hill in Lexington, Mass. "Durable manufacturing gets hit more than anything" in a recession, Caton says.

Another gloomy forecast comes from Richard Rahn, vice president and chief economist of the U.S. Chamber of Commerce. He says the economy "will grind to a virtual standstill" this autumn. Rahn says flat factory orders and larger inventories are forerunners of the slump. So far this year, consumer prices are up 4.8 percent over last year, Rahn notes, and consumer spending is "weak." Rahn says the Federal Reserve Board's prolonged insistence on high interest rates has caused the downturn, which has developed in the wake of the growth that began with the 1982-83 recovery.

ACCOUNTS

No-Nonsense Collections

If delinquent debtors are hurting your firm, you should sharpen debt-collection tactics to shore up past-due accounts.

In a softer economy, "people are going to start taking longer to pay bills," says Thomas A. Cooper, collections chief at I.C. System Inc., in St. Paul, Minn. "Customers will start picking and choosing which accounts they're going to pay."

Be stern about getting paid earlier, Cooper advises. Persuade debtors to pay you first. Let the debtors know, he says, that "you're not going to go away until they pay you." On past-due accounts, says Cooper, "if you're waiting 60 to 90 days before getting concerned, you ought to be pushing that up."

Les Kirschbaum, president of Mid-Continent Agencies Inc., a collection agency in Glenview, Ill., agrees. "You've got to cut them off at 90 days" in slower times, he says. "Ten days worth of cash is a lot of money to most people."

PLANNING

First, Generate Feedback

An entrepreneur trying to start a high-tech company should begin with a business plan, right? Not so fast, says Bob Hansens, founder of the Silicon Valley Entrepreneurs Club, in Santa Clara, Calif. Don't write a business plan without an expert team, he says.

Inventors with working models should outline their market niche in three pages and "broadcast" it with a response sheet to dozens of legal and financial experts who know the entrepreneur's field, Hansens says. A good idea will draw feedback from experts with whom the inventor may form a nonbinding "advisory board," which can help in finding investors and building a core team.

Will starting without a plan work? "It's not the way that we typically see a company fund itself," says Frank Cas-sou, a Menlo Park, Calif., venture-capital lawyer who values the initial business plan. Nonetheless, Hansens says, a business plan must have expertise to succeed.

INVENTORY

Turn Stock To Cash

As consumer spending slacks off, small companies may find their inventories rising, but they still can improve cash flow, purchasing experts say, by converting those inventories to cash.

Shoot for more inventory turns per year, says Ric Zigmond, a Laventhol and Horwath consultant in Los Angeles. If stock turns over six times a year, aim for eight turns. True, if your supplier is overseas or your stock is seasonal, you have less control. But if supplies are one or two days away, Zigmond says, you can cut variable costs—interest and insurance—by taking a 60-day stock down to 45 or 50 days. This plan risks more back orders, he says, but it frees up cash.

Concentrate on items that sell most quickly, base your purchases on more conservative sales projections, and have discount sales when you normally wouldn't—"anything to create cash," Zigmond advises.

Norman Kobert, a consultant in Fort Lauderdale, Fla., says you should value inventory only to the extent it could



PHOTO: ©DORAN HAWELL—THE STOCK MARKET

Inventory rising? Convert it to cash, perhaps with a discount sale.

turn into cash. He also notes that the costs of the conversion could be 8 percent of the inventory's value. Pay strict attention to the *time value* of stock items, Kobert says. For example, if you

have 16 units and one sells every two years, that's a 32-year supply. He cites one firm that found it had 365 years worth of ceramic tile. "I'd rather have cash than inactive inventory," he says.

START-UP

Incubators Nurture New Careers

Small-business incubators are offering "first aid" for laid-off workers around the country. The incubators—joint public-private facilities that provide low-cost space and resources for start-ups—are expected to help many laid-off employees begin careers as entrepreneurs.

The St. Louis County Enterprise Center, its nine offices and 14 production spaces all occupied in its third year, will open another incubator by November, says Director Don Kirchgessner, and he says it will fill quickly. This year in St. Louis, about 7,000 defense- and auto-industry workers are expected to lose their jobs. "Ten to 12 percent of laid-off workers will pursue self-employment," Kirchgessner says.

In Connecticut, a new incubator plans to help some of the 50,000 workers who expect to feel defense-spending cuts in 1991. Naomi Otterness, district chief for Rep. Sam Gejdenson, D-Conn., says her area's new incubator, Seatech, or the Southeast Area Technology Development Center, will help naval-industry workers refocus their careers. "This area has a tremendous amount of talent," Otterness says, "and we're sure the entrepreneurs are out there."

For more information on incubators, write to the National Business Incubator Association, One President St., Athens, Ohio 45701, or call (614) 593-4331.

Start-Ups: Who, When, Why

Average age of first self-employment: 28.7 years

Males: 27.6 years

Females: 30.0 years

Started business before age 40: 82%

Males: 85%

Females: 78%

Reasons For Self-Employment:

Financial gain: 3%

Independence: 63%

Other: 33%

Source: United Group Information Services survey of 1,000 small-business owners. Figures are rounded

ENVIRONMENT

Recycling? Plan Ahead

Your firm can be environmentally fit with easy planning. Dozens of tips for reducing office waste and for recycling are in *BUY RECYCLED! Your Practical Guide to the Environmentally Responsible Office*. The 40-page guide is available for \$7.95 (check or money order; bulk discounts available) from Services Marketing Group, 8 S. Michigan Ave., Suite 2500, Chicago, Ill. 60603; (312) 332-0688.

You can't have too many good waste-reduction ideas. The U.S. Environmental Protection Agency has grants of up to \$25,000 for small businesses to show their recycling and waste-reduction ways. EPA's Bob Barr says the competition is "wide-open."

To apply by the mid-October deadline, call (800) 368-5888; in Virginia, call (703) 557-1938.

How wide open can such a contest be? New York state recently gave nearly \$300,000 to six small firms to test recycling of tannery wastes, disposable diapers, and motor oil.

PRODUCTIVITY

A Solid Strategy Helps Companies' Growth

Most business owners have strategic plans for their firms, and the plans usually work well, a survey by the national accounting and consulting firm of BDO

Seidman shows. A strategic plan has a long-range goal that builds on the firm's strengths, says Herb Goldstein, a consulting partner at BDO Seidman in New York.

The strategic plan also outlines the firm's weaknesses, he says, and determines how the firm sets itself apart in external markets.

Ultimately, Goldstein says, the plan should "identify where the company needs to focus the majority of its energy" in the long term.

Younger firms plan more. Eighty-one percent of firms 1 to 10 years old have strategic plans, while for firms 11 to 20 years old, the figure is 67 percent.

Among the younger companies with plans, according to the survey, 40 percent reported they have had one since the start-up of the business.

Goldstein says younger, more strategic firms—the ones more likely to have strategic plans—"may be companies founded by people with business-school training, MBA programs, or entrepreneurial studies."

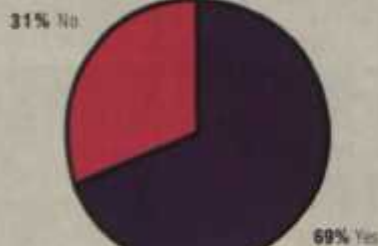
Such graduates may have more confidence in planning, Goldstein says, unlike "the older-line entrepreneurs who would manage by the seat of their pants."

BDO Seidman's fourth annual survey of business issues also covers family business, international trade, and financial management.

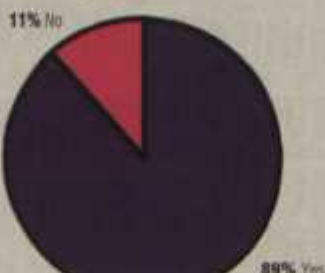
For a free copy of *1990 Pulse of the Middle Market*, write to Jerry Walsh, BDO Seidman, 15 Columbus Circle, New York, N.Y. 10023-7711, or call (212) 765-7500. ■

Experience With Strategic Plans

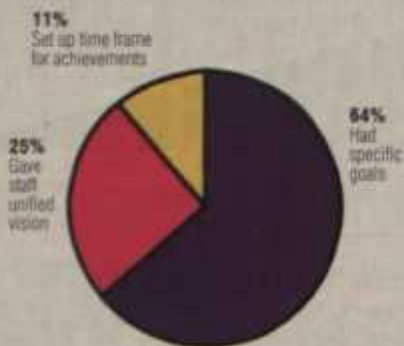
Does your company have a strategic plan?



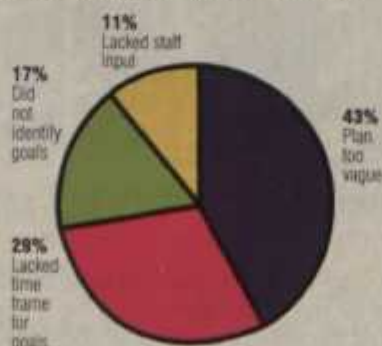
Has strategic plan been effective?



Why was strategic plan effective?



If strategic plan wasn't effective, why?



Source: BDO Seidman, 1990 Pulse of the Middle Market survey

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Cellular System

Dateline: Washington

What's happening in the corridors of power that will affect your business.

By Mary McElveen

1990 ELECTIONS

Absentee-Voter Information And Candidate Data Available

Two nonpartisan, nonprofit organizations are mounting efforts on different aspects of voter education.

The newly formed Center for National Independence in Politics, in Tucson, Ariz., aims to ensure that issues, not negative campaign techniques, are the focus in federal races.

To obtain the organization's "voter self-defense manual" specific to your state's candidates for the U.S. House and Senate, call 1-900-820-2647. A \$3 charge covering the call and the manual will be billed to your home phone.

In addition to state-specific information, the manual provides brief, basic pointers to help voters understand and assess campaign techniques and media coverage of political races.

Another organization, Vote America, a foundation based in Washington, D.C., has established a toll-free telephone service to provide absentee voting information for individuals planning to be on the road on Election Day, Nov. 6. The number is 1-800-526-8683.

Voting requirements and deadlines vary from state to state, and most states require requests for absentee ballots by Oct. 20.

In some states, ballot applications



PHOTO: MICHAEL HERON-WOODFIN CAMP

Two nonpartisan groups with separate goals are offering help for voters.

may be requested by phone or fax from local boards of elections. All but two states—Oklahoma and New York—allow individuals to vote in person before Election Day by filling out an absentee ballot at a specific venue.

EXEMPTIONS

Congress Gives Itself A Break

As it has many times in the past, Congress is once again exempting itself from the full impact of job-related requirements it is imposing on business. The new Americans With Disabilities Act permits remedies for congressional employees only "to the extent practicable." Congress has thus given itself room to bypass requirements it set for business regarding the handicapped.

The House also exempted itself from the compensatory and punitive damages that firms could face under a broad civil-rights bill. The exemption is expected to be included in the final measure that is sent to President Bush.

The U.S. Chamber of Commerce notes that federal lawmakers can ignore "the same laws and regulations that they deem necessary to control private-sector employers."

BUSINESS COSTS

Cutting Payroll Tax Gains Support

A proposal by Sen. Daniel Patrick Moynihan, D-N.Y., to cut the Social Security payroll tax is gaining support because of his revisions to the measure in July. Eduard Lopez, legislative assistant to Moynihan, says that "reaction has been favorable, and support has grown" since announcement of the revised proposal, backed by several business organizations.

Among the new advocates are a number of Republican and Democratic lawmakers and the AFL-CIO.

The new proposal would cut the payroll tax rate for employers and employees each from 7.65 percent to 6.65 percent over five years. The first reduction—to 7.45 percent—would take effect Jan. 1, 1991. Moynihan earlier had proposed phasing in the reductions over two years.

FEDERAL POLICY

Ideas Differ On Approach To Energy Development

While the Department of Energy develops a national energy strategy, lines are being drawn regarding what the federal approach to energy development should be.

Some groups are advocating the lifting of restrictions on domestic oil exploration, and others are pushing for more conservation and increased energy efficiency. Still others want a greater emphasis on nuclear power to make the U.S. less dependent on foreign oil, and some back more emphasis on renewable sources of power, such as the wind and the sun.

Henry Schuler, director of energy-security programs for the Center for Strategic and International Studies, worries that a "national energy policy" could be detrimental to U.S. efforts to become less dependent on foreign oil. "What [a national policy] means to most people," he said, "is legislation, and I think we have had a sorry history of legislating in the energy area."

What we need, said Schuler, is "national leadership that assesses the costs and risks of the various alternatives." Schuler expressed his views on "It's Your Business," the weekly television debate program produced by the U.S. Chamber of Commerce. (Check local TV listings for its schedule in your area.)

The Department of Energy expects to submit its long-range strategy recommendations to President Bush in December.

INFORMATION SERVICES

Phone Lines For Business Views And Information

Reports on Washington developments affecting business are available daily via **The Washington Dial**, a phone service provided by the Legislative Action Department of the U.S. Chamber of Commerce. The number is 1-900-420-6001. A second service, **Opinion Line**, lets callers take a stand on issues debated on the Chamber's weekly public-affairs television program, "It's Your Business." That number is 1-900-420-6002. Calls to either service cost \$1 for the first minute and 50 cents for each additional minute. **ND**

A large, complex, black mechanical device, possibly a printer or copier, is shown from a low angle. A 'Performance Guarantee' certificate is placed on top of the device. The certificate has a decorative border and a signature. The device has various components, including a control panel on the left and a paper output area on the right. The overall image is in black and white.

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Making It

Growing businesses share their experiences in creating and marketing new products and services.

The Good That Can Come When You're "Not Too Good To Do Anything"

Ernestine Guajardo Galindo learned the value of setting goals when she was a young girl picking cotton on the family's farm. At the end of each day, she recalls, her father, a sharecropper, evaluated what the family had produced: "He said that you should ask yourself, 'What have I accomplished for all the hard work I did today? What progress did I make? You keep working hard only if you think that you are being rewarded by your hard work. Only fools work the other way.'"

Galindo, 59, is nobody's fool. In less than 20 years, with the help of her husband, Tomas Galindo Jr., 68, she has built the family tortilla business in Austin, Texas, from a \$250,000-a-year store with four or five employees into a company that employs almost 100 people and will gross more than \$6 million this year. El Galindo Inc. manufactures

corn and flour tortillas, taco shells, chalupas, and a wide variety of tostadas (chips).

Tomas Galindo's father, Tomas Sr., and his wife, Josepha, founded the company in 1940; then, it was called the El Fenix Tortilla Co. The senior Galindos, natives of Mexico, had moved to Austin in 1922, just before Tomas Jr. was born.

When Ernestine married Tomas in 1955, he was traveling to nearby counties, selling El Fenix tortillas. She began working at El Fenix herself in 1960, at her father-in-law's request, shortly before he retired. "There's not much, but there's something," he told her.

"I knew nothing about tortillas when I joined the company," Galindo says with a laugh. But she decided to give it a try. "I was glad to do anything: learn how to count tortillas, clean, wait on customers," she says. "I'm very flexi-

ble. Not too good to do anything. I learned, and I worked hard."

After more than 10 years of working and watching, she felt that some changes were necessary in order for the business to grow. In 1972, she and her husband paid her brother-in-law \$26,000 for his half of the business. The next year, they incorporated and changed the name to El Galindo. Ernestine, as president, took charge of the company's financial affairs, while her husband, as vice president, oversaw the manufacturing of the tortillas.

"I wanted to buy [her brother-in-law's share] so I could use my own ideas and ways of running a business," Ernestine Galindo says. "I changed the whole format of doing things. I didn't have any management experience. I told myself it would work, and it did."

El Fenix had always operated primarily as a retail store, selling the fresh tortillas it made, although it did sell tortillas to a few local grocery stores, restaurants, and sorority houses. Galindo saw an opportunity to sell much more through supermarkets in other

Texas entrepreneur Ernestine Galindo has built a tiny tortilla company in Austin into a \$6 million firm.

How To Make Yourself Judgment Proof

Lawsuit explosion in U.S. makes it mandatory to protect yourself from judgments caused by creditors, customers, patients, employees, the IRS, or even an ex-spouse

For the first time ever you can now legally and ethically protect yourself and your property from lawsuits, creditors, and the IRS.

A new book, *The Complete Asset Protection Guide*, by lawyer and best-selling author Arnold S. Goldstein, Esq., will show you how.

Just look at this.

- Major foolproof strategies to protect your assets. See page 2.
- The only ideal way to gain true freedom from debt. See page 56.
- Three critical conditions property transfers must meet to keep free and clear of any creditor claims. See page 17.
- How to assure that a *prenuptial agreement* is a sound asset protection plan, not a giveaway program. See page 239.
- **Why asset protection is both 100% legal and smart. See page 10.**
- Three ways to create an installment plan creditors must accept. See page 56.
- How to legally shift wealth and income to younger members of the family. See page 157.
- Eight invaluable tips for judgment proofing your assets. See pages 20-21.
- Twenty harassment techniques you can stop creditors from using against you. See pages 47-48.
- *Debt settlement secrets.* Proven ways to reduce, settle and discharge present or potential liabilities on advantageous terms before they become a threat to your property. See page 2.
- You can avoid bankruptcy forever if you meet one very important condition. See page 56.
- State-by-state report on what income is exempt from creditor claims. See pages 147-152.
- **The single most important action you must take to gain the cooperation of creditors. See page 57.**
- Seven crucial points in negotiating settlements with creditors. See page 61.
- Where to find competent professional assistance in dealing with creditors. See page 63.
- A powerful sample letter which shows how to ask for extended payments with creditors. See page 70.
- **100% legal method of transferring assets to beat the IRS. See page 91.**
- Model letter which can help you arrange an out-of-court settlement. See page 71.
- Three principle reasons to set up a trust. See page 155.

- How to stop repossession of personal property. See page 80.
- *Asset transfer secrets.* The two crucial steps that must be taken to avoid transfers of assets that in any way could be deemed fraudulent. See page 10.
- How to legally transfer your home to avoid a tax liability. See page 226.
- Why your creditors will approve your Chapter 13 plan in almost every case. See page 108.
- **Two ways forming a corporation can protect your assets. See page 207.**
- How to limit your personal liability and corporate guarantees. See page 236.
- Why creditors have eight major obstacles in going after an interest in a limited partnership. See page 206.
- The single most effective action you can take to immediately stop creditor harassment. See page 48.
- How to avoid a gift tax when conveying an asset to a trust. See page 241.
- Two possible disadvantages to using land trusts. See page 163.
- When your spouse and children should hold all the stock in a corporation. See page 235.
- Advantages of general and limited partnerships and how to use them to protect assets. See page 199.
- How to legally divide assets in a marriage through trusts so that the business owner's spouse becomes "judgment proof." See page 162.
- Limited partnerships can shield your interests from the reach of most creditors. See page 206.
- How to obtain a release from an IRS Notice of Levy. See page 89.
- **Using corporations to avoid personal liability. See page 207.**
- Why you should immediately file for a Homestead Exemption to protect your rights regardless of your financial condition. See page 139.
- When to consider using multiple corporations. See page 209.
- Answers to important questions about Chapter 13. See page 115.
- How to avoid IRS seizure of bank accounts. See page 224.
- When using joint bank accounts can be a very dangerous practice. See page 177.
- When filing separate tax returns rather than a joint return can be advantageous in protecting assets. See page 228.
- How to get IRS seizures released and your property back. See page 88.

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MAKING IT

parts of Texas and the U.S. Now El Galindo still sells directly to stores within a 150-mile radius of Austin, but it uses other distributors to put its tortillas in stores not just in major metropolitan areas in Texas but also in the Northeast.

The Galindos also sell by mail order to customers who cannot find El Galindo products in their local stores.

One change was not in Galindo's plans. On Aug. 31, 1986, an electrical fire destroyed the whole plant. The only thing that survived was a red-and-white wooden sign that read El Galindo Inc. Now it sits atop a new million-dollar plant that is larger and more efficient than the building that burned.

Tomas Galindo retired three years ago, although he is still involved in pur-

chasing and caring for the tortilla-making machinery. Tomas Galindo III, 31, is now vice president.

"I'm a career woman, a wife, a mother, and a grandmother," Ernestine Galindo says. "I've done it all. And I hope more people will say, 'I want to be a business lady.' Through hard work, you can become one. If I did it, anyone can."

—Susan Arrant Eckert

How You Can Hit The Heights While Plunging To The Depths

When James A. Fulton graduated from Villanova University in 1980 with a degree in accounting, everyone expected him to make his career with the family firm, a restaurant-equipment distributor in the Philadelphia area.

Instead, he struck out on his own, determined to build a business on a product that was then no more than a friend's bright idea.

That product, which has revolutionized underwater diving, is a compact, submersible computer that gauges the body's intake and elimination of nitrogen. A diver wearing one of these instruments knows how long and how deep he can descend, and how quickly he can return to the surface without serious physical complications.

Fulton's company, Orca Industries, was the first to develop a commercially successful dive computer; it is still the only U.S. company that makes such computers, although some foreign manufacturers' dive computers are now distributed here.

Craig Barshinger, a boyhood friend of Fulton's, came up with the idea for a dive computer while working as a scuba instructor in the Virgin Islands. He sent a rough proposal to several dive-equipment manufacturers and was flatly rejected.

"Craig had this great idea that would have fallen to pieces if we hadn't decided to make a business out of it," explains Fulton, 32, an avid sports diver. "I was just out of college and thought, 'This is a neat thing, I'm young, I have no responsibilities, I should be an entrepreneur instead of regretting it later.'"

Fulton and Barshinger used a \$100,000 loan, which Fulton raised by mortgaging real estate, to establish Orca Industries in 1982, and they hired a team of five free-lance engineers to develop a prototype. Less than a year later, they were on a flight headed for the annual Diving Equipment Manufacturers Association show in Las Vegas, making the final adjustments in their computer.

That first computer, which they called the Edge, was a 1½-pound, 9-volt, battery-powered rectangular box with a display screen; it retailed for \$675.

Fulton had to virtually create a mar-

ket for the Edge. Targeting professionals and serious sports divers, he placed full-page, four-color ads in the largest, most prestigious diving magazine in the country, reasoning that "if you start out with little black-and-white amateur ads, people really suspect the quality of the company." A cover story in the same magazine touting the Edge, along with direct mailings to professional divers and marine scientists, boosted first-year sales to \$70,000.

"It took several years to get the groundswell of support" from professional divers, says Fulton, "but after everyone saw that the photographers, instructors, and commercial divers were using it, they started to emulate these people, and it trickled down."

The company now manufactures three models, ranging in price from \$390 to \$715. Sales have doubled almost every year, and Fulton projects revenues this year of \$6 million.

Although Orca remains a small company, with around 50 employees—mostly technicians who design, assemble, and test computers—it has a reputation that most large firms would envy. Earlier this year, Orca's backlog of orders for its latest model grew to six months—but customers waited. "They won't buy anything else," Fulton says.

In 1985, Barshinger left Orca to return to the Virgin Islands, opening the door for Fulton to forge a new partnership with a company that knew Orca through one of its suppliers. Fulton became chairman and serves as sales and marketing director. At the same time, Orca moved from near Philadelphia to a 50-acre farmsite in Toughkenamon, Pa., in the Delaware Valley, where it occupies 20,000 square feet.

As Fulton surveys the undulating cornfields outside his office window, he sees nothing but a bright future for his company. The number of sports divers in the U.S. is close to 3 million and growing by more than 300,000 a year; new international markets are waiting to be tapped. Fulton believes there is no limit to growth "as long as you keep the momentum and maintain superior standards and products that are technically advanced. You have to, if you're going to stay ahead."

—Josephine Eccel



PHOTO: EILEY SACKOPOUR; WOODFIN CAMP; INSET: © STEPHEN FRANK

Scuba divers rely on the submersible computers made by Jim Fulton's company to keep them safe underwater.

MAKING IT

Higher And Higher (Sales, That Is) In The Rocky Mountains

Eric and Dana Breier believe in leading by example, whether they are on the floor of their outdoor-equipment specialty shop or on a weekend mountain outing. The result is a fiercely loyal following that has helped their retail business boom despite tough local competition and an even tougher local economy.

The Breiers own and operate Mountain Miser Ltd., a 6,000-square-foot outdoor-equipment store just south of Denver. Sleeping bags, backpacks, hiking boots, camp stoves, and outerwear are just a few of the products they carry.

The Breiers, staunch believers in hands-on management, have an extensive knowledge of the items on their shelves. They also enthusiastically promote these products in the environments for which they were designed, and they accompany customers on hikes and camping trips year-round.

Such commitment has enabled the couple to increase their store's annual sales volume from \$365,000 five years ago to an expected \$1 million in 1990—even though the local economy took a well-publicized battering during that time and the outdoor-equipment market is considered among the nation's most competitive.

Carefully chosen stock, knowledgeable service, and dedication to both their customers and their industry are the attributes that Eric, 33, and Dana, 34, have parlayed into success. "They've done it by being selective in their lines and by offering really superb service on top of it," says Phil Brown, national sales manager for Taymor/Outbound, a supplier that counts the store among its top 20 dealers. "They've created their own niche."

The store's roots go back to 1979, when its original owners sold second-quality and second-hand backpacking gear out of their basement. The aptly named Mountain Miser became an instant hit, and when it added new products from the day's hottest manufacturers, it developed an even larger customer base. Relocation to bigger quarters and the addition of satellite shops in four other Colorado cities soon followed.

By the mid-1980s, however, managerial mistakes and the state's increasingly flat economy had led to the demise of all the outlying stores. The owners then offered their flagship site to its manager, Eric; he had worked his way up from a part-time job as sales clerk after his chosen career as a mining engineer fell victim to an industrywide collapse.

"Dana is a CPA, and I knew we had the right mix of experience to make it work," Eric recalls.

They concluded that the store's major shortcoming was a product line too narrow to attract a wide range of outdoor enthusiasts; the store was stocked almost exclusively with tents, backpacks, and other camping gear. The Breiers decided that as each new season approached, they would earmark a portion of their profits to pay for adding a major category of products, such as footwear, or books, or ski clothing, or climbing gear.

The Breiers simultaneously deepened the product mix in every department by increasing the number of lines they stocked in each, to a minimum of three. That way, Eric says, "when people come in, you've got what they want."

To make these additions possible, the couple leased a larger space in the

store slide shows and excursions to the mountains—some led by the Breiers themselves—are designed to get what Eric calls the "quality people" to "see the store and what we have to offer." And, he says, they work.

The Breiers divide management of the store—Dana handles the office and financial side, while Eric oversees merchandising and personnel—but they both attend trade shows, do the buying, and work the floor. They also spend long hours maintaining just the right 12-person work force, prizing an outgoing and helpful personality over prior experience selling outdoor products. "I can teach them about the gear," Eric says. "What I want is the reputation of a consumer-oriented store."

To help attain it, new hires are given a two-hour orientation every day during their first three weeks on the job. In addition, employees can parlay exemplary work into an immediate share of the store's profits. "They are evaluated every two weeks on salesmanship, technical knowledge, and work attitude," Eric explains. "All employees get a



PHOTO © JAMES COOK

Mountain Miser's Eric and Dana Breier, with "customer-relations dog" Kenei.

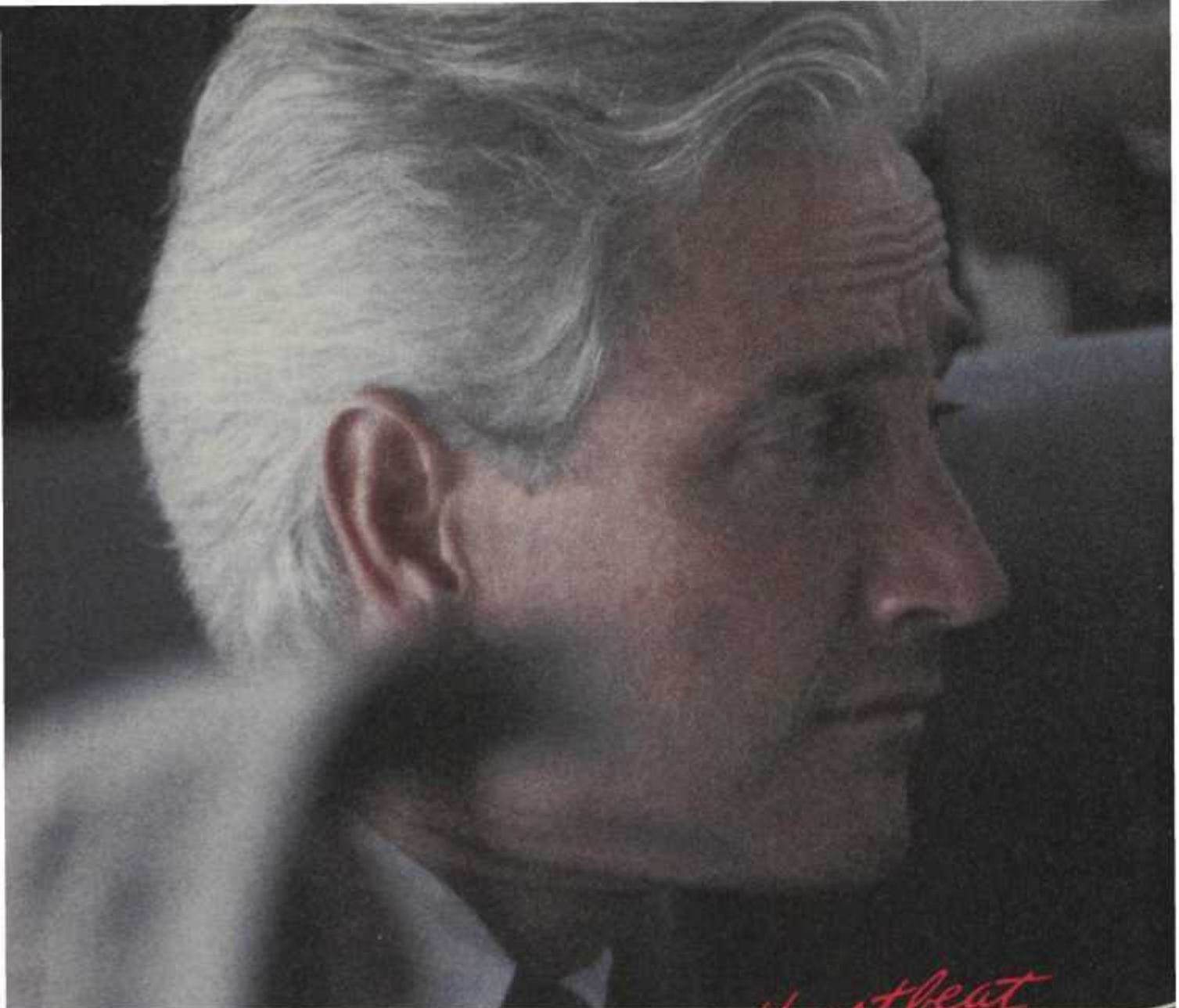
heart of suburban Englewood, a few blocks from their original south Denver location. The new site, on one of the area's two principal routes to the mountains, offered increased parking and high-traffic co-tenants. Mountain Miser reopened there on Labor Day of 1988.

The first full year that followed saw Mountain Miser's true awakening. Long-time customers were excited by its larger quarters, while newcomers were attracted by its enhanced inventory and the two or three promotional events scheduled each week. These in-

base hourly wage of \$4.50, but last Christmas one made \$14 per hour."

The Breiers' own incentive is provided by their ownership stake, of course, but that doesn't stop them from closing on Sundays for religious reasons. And while their six-day week certainly diminishes their potential for profit, they think it helps them put a mom-and-pop stamp on their continually growing operation. "We're in the big leagues now," Eric Breier says, "but we still have that small-town philosophy."

—Howard Rothman



THE *Heartbeat* OF AMERICA

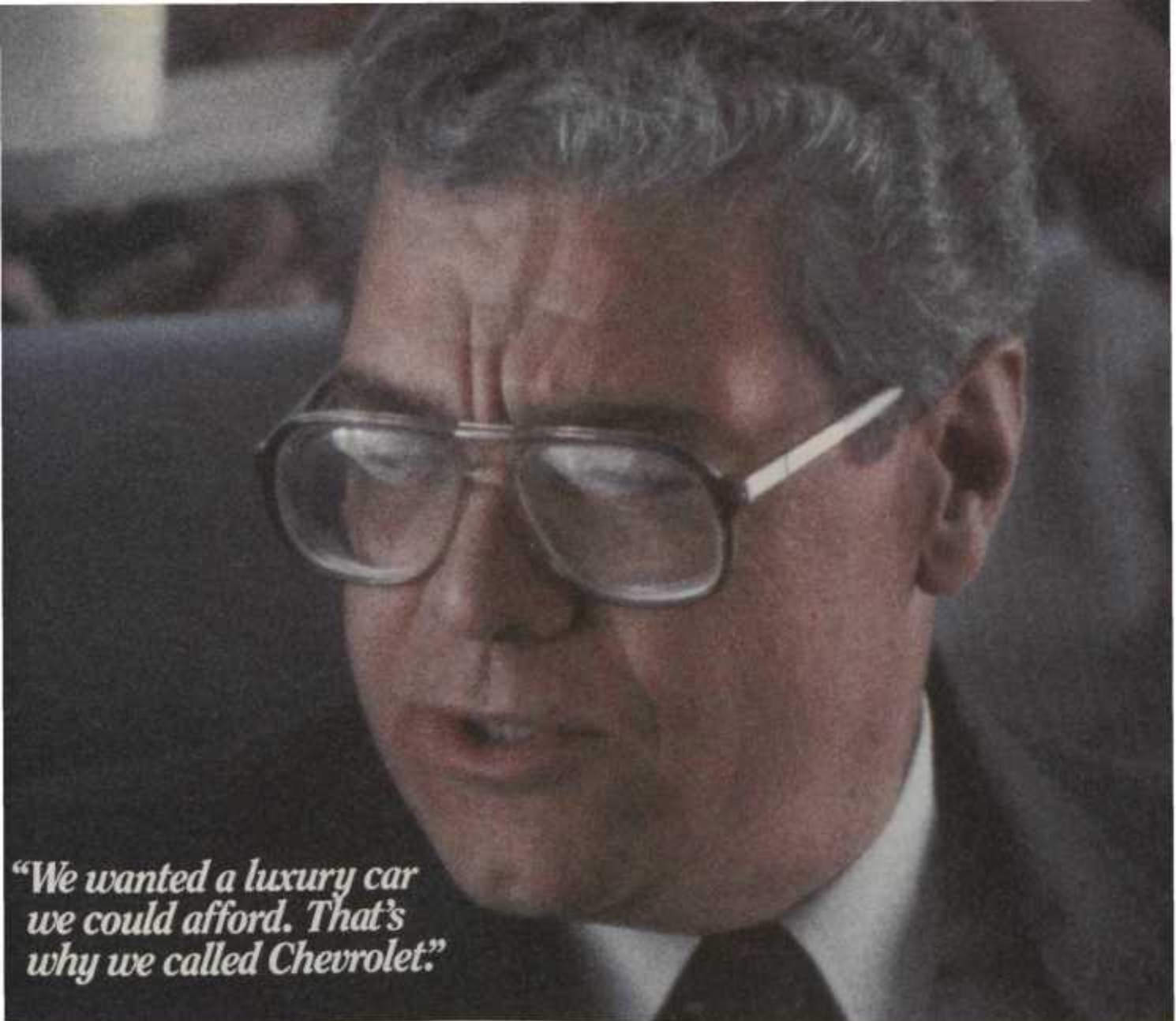


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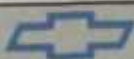
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10 ways to cut your health-care costs now

By Roger Thompson



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If you haven't already received your company's health-insurance renewal notice this year, brace yourself. Average costs per employee seem certain to surge by more than 20 percent for the second year in a row.

Among *Nation's Business* readers who responded to an August health-care survey, nearly one-third reported health-insurance premium increases of 30 percent or more. Thirty-seven percent reported increases ranging from 16 percent to 29 percent. (See Page 21.)

At that rate, the average cost of health insurance per employee will exceed \$3,000 in 1990, up from \$2,748 in 1989, according to A. Foster Higgins & Co., a benefits consulting firm based in New York.

A recent survey by Nobel Lowndes, an employee-benefits firm in East Orange, N.J., found that 73 percent of senior executives believe health-care costs will continue to increase 20 percent or more each year for the next three years. These gloomy executives

are primed for the worst, knowing that costs already have gone up eightfold since 1970. (See the chart below.)

Moreover, business shouldn't count on Congress for a big fix. Although some lawmakers favor a Canadian-style nationalized health-care system or mandated coverage for all workers, those legislators comprise a vocal minority that is better at capturing public attention than winning converts on Capitol Hill. In addition, both of those proposals focus on broadening coverage to the nation's 31 million to 37 million uninsured, not on controlling spending.

The message here is clear: If you haven't already gotten serious about cutting your company's health-insurance costs, now is the time. It can be done. Just ask Philip Leber, who slashed his small company's monthly premium from \$10,000 to \$2,500. (See Page 26.)

The first thing you should do is learn how the system works—or doesn't work. Most small employers spend few-

er than four hours a year thinking about their company health plans.

Learn what your options are. Your insurance agent can help you shop for cheaper plans. But don't stop there. Compare plan benefits, insurance-company records, and service guarantees. (See the checklist on Page 29.)

Consider Blue Cross and Blue Shield plans and HMOs (health-maintenance organizations), even if your agent doesn't handle them. The Blues in some areas offer clear advantages to small companies. Experts regard HMOs as the best buys in health care.

Find out if your company is eligible for new, low-cost health-insurance plans now available in five states. In addition, foundation-funded pilot projects in several parts of the country are demonstrating that it is possible to cut health-coverage costs 30 to 40 percent.

In short, health insurance isn't as simple as it used to be. And the pace of change is accelerating, offering new hope for a truce in the business battle with exploding health-care costs.

"The next couple of years present as much potential for change as at any time in the past 20 years," says Gail Wilensky, administrator of the federal Health Care Financing Administration, which oversees Medicare.

You can be part of that change by putting at least some of the following 10 ideas to work for your company.

U.S. Health-Care Spending 1930-90

Year	Dollar Amount (billions)	Percent Of GNP
1930	\$3.7	4.0%
1940	4.0	4.0
1950	12.7	4.5
1960	26.9	5.3
1970	71.6	7.3
1980	230.0	9.4
1990*	620.0	11.5

Source: Health Care Financing Administration
*Forecast

Skyrocketing costs for employee health coverage can be brought back to earth. Learn how the system works, and exercise these options for restraining health-care increases.



Increase Cost Sharing By Employees

This recommendation is at the top of every consultant's list. Small companies tend to pay far more of their workers' total health-care bill than large companies do. Yet research shows that insulating employees from the costs of care encourages unnecessary use of health services.

Fifty-two percent of the companies responding to the *Nation's Business* health survey said they pay 100 percent of their employees' health-insurance premiums. But 45 percent said they intended to implement or increase employee contributions to these premiums. An equal number said they plan to increase employee deductibles.

Insurance companies first attached \$100 deductibles to major-medical plans in the early 1950s. But 40 percent of employers still set deductibles at \$100 or less.

Celtic Life Insurance Co., a small-business health insurer based in Chicago, calculates that raising a \$100 deductible to \$250 would cut premium costs for single coverage by about 11 percent. A \$500 deductible would cut costs by about one-fourth. A \$1,000 deductible would save about one-third.



Allow Employees To Pay For Health Premiums With Tax-Free Dollars

Set up a so-called flexible spending account, which allows your employees to pay their share of health-insurance premiums and unreimbursed health-care expenses with pretax dol-

lars. A flexible spending account could save employees 20 cents to 35 cents on the dollar, because state and federal income taxes and Social Security taxes are not imposed.

Moreover, the company saves by reducing the employee's base salary on which it pays Social Security and other taxes.

Hire an outside payroll accounting firm to handle the paperwork. You can pay the service fee and still come out with a net savings, says Don Brown, a Silver Spring, Md., insurance broker. The monthly administration fee would run between \$2 and \$5 per employee.



Transfer High-Risk Employees To The State's High-Risk Pool

Insurance premiums soar whenever someone in a small-group plan becomes very ill—

with cancer or heart disease, for example. As an employer, you should explore the possibility of moving employees with serious health problems into a state high-risk pool and then negotiating a lower premium for the healthy members of your group.

Twenty-four states have high-risk pools for people whom insurance carriers don't want to cover, although some of these pools are not yet operational. Risk-pool insurance generally sells for 150 percent of the typical individual premium. The insurance is comparable to that offered by a standard major-medical health policy.

Rules governing coverage differ from state to state. For example, some states won't allow employers to move high-risk individuals into the pool; only the uninsured are admitted. Other states encourage it. Some state pools have waiting lists.

Call your state insurance commis-

Health-Care Survey Results

A survey of *Nation's Business* readers shows that most companies continue to experience double-digit increases in health-insurance costs. Other major findings: Changing insurers, reducing benefits, and increasing employee contributions are among the most widely used techniques for cutting company costs.

1. How much did the cost of your company's employee health insurance increase this year?

- 13% 0%
- 20% 1% to 15%
- 37% 16% to 29%
- 20% 30% to 49%
- 10% 50% or more

2. How much do employees at your company contribute to their health insurance?

- 51% \$0; the company pays 100%
- 5% \$0; firm has no health plan
- 17% Up to \$39.99 per month
- 14% \$40 to \$79.99 per month
- 13% \$80 or more per month

3. What cost-containment features does your health plan include? (answers reflect multiple responses)

- 51% Preadmission certification
- 19% HMO
- 17% PPO
- 12% Managed care
- 8% Utilization review
- 9% Wellness
- 20% None

4. How do you plan to control future health-insurance costs?

- 29% Change insurers
- 20% Reduce benefits
- 18% Increase copayments
- 12% Increase deductibles
- 12% Increase employee contribution
- 9% Implement managed-care plan

5. What prompted any change your company made in health-insurance providers/policies in the past year?

- 39% No changes were made
- 48% To cut costs
- 4% Insurer canceled policy
- 9% Other

6. If you do not offer health insurance now, why not?

- 66% Too costly
- 10% Cannot find an insurer
- 24% Other

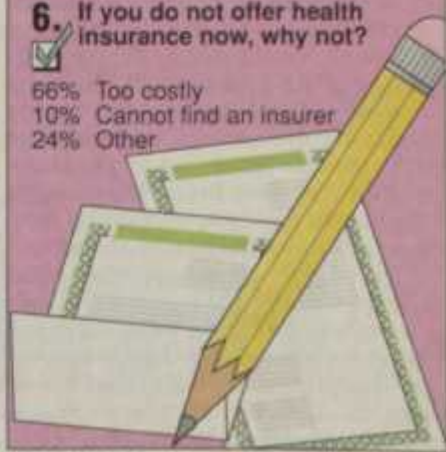


CHART: BARRY MULLINS

COVER STORY

sioner's office for details if you live in one of the following states: California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Louisiana, Maine, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Carolina, Tennessee, Texas, Utah, Washington, Wisconsin, Wyoming.



Switch To An Open-Enrollment Blue Cross And Blue Shield Plan

Blue Cross and Blue Shield plans operate as de facto high-risk pools in a number of states by providing "open enrollment" periods during which any group can buy insurance. Among the 74 Blue Cross and Blue Shield organizations nationwide, 21 offer open enrollment.

Open-enrollment plans "are better than state risk pools because Blue Cross offers coverage at substantially less cost than the rates charged by state pools," says Greg Scandlen, director of states services research for the Blue Cross and Blue Shield Association in Washington, D.C.

Employers who buy open-enrollment plans are insulated from the premium spikes they can experience with other insurers once someone in the group becomes very ill. These plans use so-called community rating to calculate premium increases. All companies buying one of these policies are in the same risk pool, and all pay the same rates.

All the Blues once used community rating to set premium levels. But that began to change in the 1960s when commercial insurers started to lure away firms with low risks by offering them cheaper health insurance. The Blues increasingly found themselves writing policies for groups with above-average health claims. As a result, premiums went up. And most Blues today use the same health screening and rating practices used by commercial insurers.

Five of the open-enrollment plans limit applications for insurance to specific periods during the year. Some will take groups no smaller than 10 employees. For details, contact Blue Cross plans in Alabama, Maryland, Massachusetts, Michigan, the National Capital



PHOTO: JAMES COOK

Judith Glazner says small-business owners "burned up the phone lines" with questions about the innovative health plan she manages in Denver.

tal Area (Washington, D.C.), New Hampshire, New Jersey, New York (six different plans), North Carolina, Pennsylvania (four different plans), Rhode Island, Vermont, and Virginia.



Replace Your Traditional Health Plan With An HMO

Unlike traditional health insurance, HMOs cover all medical needs, including routine

preventive care, for a flat monthly fee that typically is less expensive than traditional health insurance. Moreover, two types of HMOs, the staff and the group models, have proven to be more effective at controlling costs than any other form of health-care delivery. Staff models employ physicians directly and put them on salary. With group models, the HMO contracts with a multispecialty group practice and caps payments for services.

Look for an HMO that operates in accordance with voluntary federal standards, so-called federally qualified HMOs. These HMOs are barred from refusing health coverage based on medical screening. Their premium rate increases are tied to the experience of everyone in the HMO, which protects a company from sharp increases based on heavy claims from a few of its employees. There are 307 federally qualified HMOs covering more than three-fourths of all persons enrolled in HMOs nationwide.

The catch with an HMO is that those who are covered have to use the HMO's doctors and the hospitals that it desig-

nates. Those unwilling to surrender their freedom of choice can go for an "open-ended" HMO, a new hybrid that will allow the insured to see doctors outside the HMO if the covered person is willing to pay out-of-pocket deductibles and coinsurance. Enrollment in open-ended HMOs jumped 39 percent in 1989.

Because HMOs typically can't afford to market to small companies, start your search in the Yellow Pages.



If An HMO Is Out, Shop For A Traditional Plan With Managed Care Or A PPO

Switching to a managed-care health plan with

built-in restraints on the use of health services should cut your costs by 5 to 10 percent.

The costliest health insurance you can buy is a traditional indemnity plan. Under such a plan, employees choose their physicians. Insurers, acting as a passive pass-through mechanism, reimburse doctors and hospitals on a fee-for-service basis. They also increase employer premiums as necessary to keep pace with rising costs. Many experts predict that traditional indemnity health insurance will be replaced by managed-care indemnity plans by the mid-1990s. Managed-care plans attempt to hold down costs by placing controls on the use of medical services.

Most insurance carriers already offer a variety of managed-care features as additions to traditional indemnity plans. They include prior approval for elective hospital admissions, second opinions for surgery, utilization review, case management, and discharge planning.

A number of insurers also offer preferred-provider organizations (PPOs), which also may be organized by hospitals or sponsored by large employers. PPOs are groups of doctors who have agreed to discount their fees, usually by about 10 percent to 20 percent. By definition, PPOs build in managed-care features to hold down expenses. To encourage use of PPO doctors, employees pay only a small fee of \$5 to \$10 per office visit. Employees may use doctors outside the PPO, but out-of-pocket expenses rise sharply with the addition of deductibles and coinsurance.



Proposals For Fixing A Defective System

For small business, the health-insurance market is at least defective if not broken. Insurance, when it is available at all, is increasingly beyond the financial reach of small companies. And the situation will only get worse unless Congress and state governments rewrite the rules that govern the market for small companies.

Insurers maintain that they have sound business reasons for treating small companies differently from large ones. In their view, firms with fewer than 25 employees are inherently more risky to insure than larger companies because in firms below that size, it is hard to dilute the financial impact of an insured employee who makes exceptionally large claims.

An insurer unlucky enough to pick too many high-risk small groups will be forced to raise rates faster than its competitors. The result will be a loss of business as employers go elsewhere for coverage.

To protect themselves from high-risk groups, insurers carefully screen small companies, a process called medical underwriting. This requires each employee to fill out a form detailing the individual's recent medical history and listing all doctors seen over the past several years. Insurers use the information to exclude individuals with serious health problems or to decline coverage to entire groups.

An alternative to medical underwriting is strict enforcement of exclusions for pre-existing conditions. This can eliminate payment for treatment of an existing condition for one to two years, depending on the time limits set by state insurance laws.

Insurers also refuse to sell policies to small businesses that they regard as too risky at any premium level. The list of excluded groups varies with insurers, but it typically includes dangerous occupations such as tree trimmers, heavy-equipment operators, police officers, and rodeo performers. It also includes not-so-dangerous but often part-time occupations such as waiters, musicians, bartenders, beauticians, and artists.

Once a small group obtains health coverage, there is no guarantee of renewal. And insurers are not restricted

in their ability to raise rates at renewal time. Typically, rates start low to attract new customers and rise dramatically in subsequent years. Rates can skyrocket if someone in the group becomes seriously ill and incurs high medical costs.

Small companies in recent years have complained bitterly about these screening and rating practices. "Major reforms are necessary because the frustration small companies experience in the insurance marketplace is growing," says Karen Brigham, manager of health-care policy for the U.S. Chamber of Commerce.

Even the insurance industry now recognizes that something must be done. The Health Insurance Association of America (HIAA), which represents most health insurers, has proposed overhauling the way the industry does business with firms employing 25 or fewer workers.

Under the plan that has been proposed by the HIAA, insurers would stop medical underwriting to exclude individuals or groups from coverage. Once covered, an insurer could not cancel a group's policy because an individual became seriously ill.

Further, when an employer changes insurance companies or an employee changes jobs, individuals generally would not have to meet any new pre-existing-condition restrictions to remain covered.

The HIAA plan also would limit how much premiums for similar groups

could vary, and it would restrict annual premium increases.

Because the plan requires insurers to take on people with serious health problems, it also calls for a new reinsurance pool to pay claims for these high-risk individuals.

The reinsurance pool—essentially insurance for insurers—most likely would lose money because of the desire to keep premiums affordable. Insurers themselves would help make up the shortfall through assessments. But if the assessments were not enough, the HIAA says, government should make up the difference.

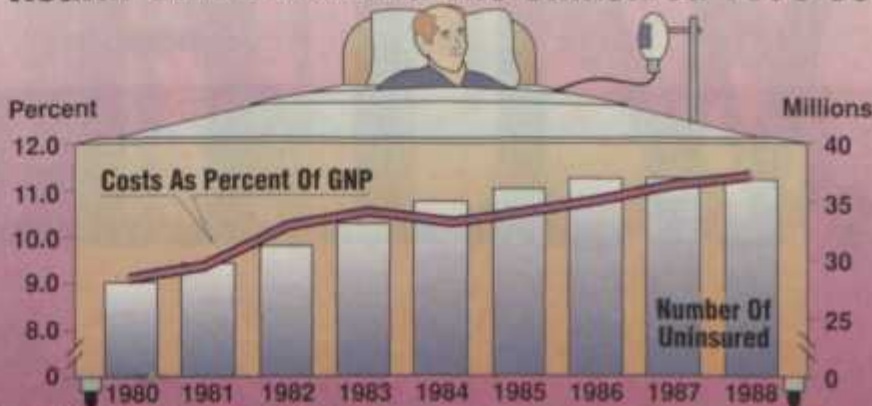
"This plan represents a fundamental change in the way our industry does business," says Carl Schramm, HIAA's president.

Implementing the HIAA's proposals will require the states and Congress to pass laws applying market reforms to all health insurers and permitting the insurance industry to set up reinsurance pools. Connecticut earlier this year became the first state to take these steps. Several other states have shown interest in adopting similar legislation next year.

As for Congress, insiders say that the legislative agenda already is too crowded to permit serious consideration of insurance-market reforms this year. But a number of lawmakers are expected to push reform proposals in 1991.

"This will be at the top of the agenda next year," says Brigham.

Health-Care Costs And The Uninsured 1980-88



Source: Blue Cross and Blue Shield Association

CHART: MARY WILLIAMS

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COVER STORY



Purchase Your Health Insurance Through A Business Group Or Coalition

Individual small employers have little or no leverage in buying health insurance, but when a number of small employers band together to purchase insurance, they can wield real clout in the market.

The Small Business Service Bureau, an association based in Worcester, Mass., arranges group insurance through HMOs and Blue Cross organizations for 35,000 small businesses—

most with fewer than 10 employees—across the country. "We negotiate the terms of the benefits, and we have trained staff members who explain the options to small-business owners," says Lisa M. Carroll, health-services director.

Fred Rohm, president of the New Castle County Chamber of Commerce, in Newark, Del., manages a group-purchasing arrangement for small employers in his area. Premiums for 350 small employers covered by the chamber's indemnity plan went up only 1 percent this year.

The chamber in San Francisco launched a group-purchasing arrangement in March. It lets small employers in the Bay Area choose an indemnity plan, an HMO, or a PPO. Ask your local chamber or business association about group purchasing.

10 ways to cut your health-care costs now

But use caution in signing up. Some insurance agents and many business trade associations offer group-purchasing plans known as multiple employer trusts (METs). "METs were everybody's answer to the problem of rising costs several years ago," says David Helms, president of the Alpha Center, a health policy and planning center in Washington, D.C. But METs in general have not lived up to their cost-cutting expectations, primarily because insurers lure away low-risk groups with rock-bottom rates, says Helms. This leaves the MET with higher-risk groups, which erodes its ability to negotiate low rates. Make sure the MET you choose is backed by an insurance company. Self-insured METs—those not backed by an insurer—have experienced high failure rates.

Smart Shopping Pays Off: Update On A Small Firm

Last year at this time, Philip Leber feared financial ruin for his small business, George's Tool Rental Inc. Like a bolt of lightning, his health insurer hit him with a fivefold increase in monthly premiums—to \$10,000 from \$2,000—for a policy covering seven employees.

Leber's insurance agent expressed dismay at the size of the rate hike. It was triggered by large medical expenses for Leber's infant grandson, who was covered as a dependent. Leber's daughter and son-in-law work for the family-owned business, in Hatfield, Pa. Yet the agent couldn't tell Leber where to turn to cut his insurance costs and continue coverage for his grandson. No insurer would take on such a high-risk individual.

Leber's predicament was extreme, but it points up the difficulties that small firms can encounter in finding insurance coverage if they want to cover individuals with existing medical problems. Fortunately, Leber's story, which appeared in the September 1989 issue of *Nation's Business*, has a happy ending.

First, Leber joined the local chamber—the North Penn Chamber of Commerce—after he learned that it offered member companies an HMO willing to cover pre-existing conditions. Signing up with the HMO, however, would mean new doctors for Leber's grand-

son, who was under the care of non-HMO physicians.

Then another possibility turned up when Alan Wismer, who is Leber's son-in-law and manages the store, heard that the Blue Cross and Blue Shield organization in nearby Philadelphia periodically offered open enrollment. He called Blue Cross and learned that it would take the entire group, plus Leber's wife and daughter. At the time, both were company employees, but chronic health conditions had forced them to purchase insurance separate from the company's plan.

The only hitch was that Blue Cross offered coverage only to companies with 10 or more employees. So, to meet that 10-employee requirement, Leber hired an extra worker. Today, his insurance premium is \$2,500 a month, which includes his grandson, wife, and daughter. Moreover, the premium won't zoom skyward, as his former plan did, because Blue



Philip Leber, left, and his son-in-law Alan Wismer, holding his son Philip. Leber slashed his tool-rental firm's health premiums by switching to another insurer.

Cross bases rate hikes on its experience with the total group covered by the plan, not on its experience with one company. Clearly, it pays to shop around.



Purchase One Of The No-Frills Insurance Plans Now Available In Five States

Virginia, Missouri, Florida, Illinois, and Wash-

ington this year exempted small firms from regulations requiring them to provide certain types of health coverage. Typical mandates cover chiropractors, well-baby care, dental checkups, and treatment for alcohol and drug abuse. Some states require coverage for more

Princeton, N.J., have helped nearly 2,000 small businesses in 10 states purchase health insurance at savings of 30 percent to 40 percent. The projects were designed to attract small, uninsured companies. Although these projects typically exclude firms that have offered group insurance within the past year, there are two notable exceptions—in Florida and Colorado.

The Florida Small Business Health Access Corp. in Tampa accepts firms that have gone uninsured for only six months. The corporation currently provides health services to 560 small businesses covering 2,855 individuals. It

and by relying on a select group of doctors and hospitals. Routine visits to a doctor's office require a \$15 payment. Hospital admissions require an individual to pay a \$250 deductible plus half of the first \$5,000 in charges. But the plan also covers a wide array of preventive care at no charge.

The high cost-sharing with employees allows U.S. Life Insurance Co., the Neptune, N.J., insurer offering the plan, to keep rates low. A single 35-year-old male pays \$54.94 a month; family coverage is \$148.47. "In the first five weeks [of the plan], 8,000 businesses called for information," says Judith Glazner, SCOPE's director.

Other Robert Wood Johnson Foundation health-care pilot projects are those

Comparison Of Average Monthly Premium Costs 1988-89

Monthly Premium In Dollars

Source:
Health
Insurance
Association
of America

	Individual		Percent Increase	Family		Percent Increase
	1988	1989		1988	1989	
Conventional	\$98	\$126	29%	\$209	\$274	31%
Staff/Group HMO	93	124	33	203	261	29
IPA/HMO	88	108	23	226	272	20
PPO	103	119	16	232	271	17

exotic procedures, such as *in vitro* fertilization and acupuncture. By exempting small firms from such mandates, insurers may offer no-frills plans with premiums costing 20 to 40 percent less.

To prevent employers from canceling existing insurance, some states restrict the new, lower-cost plans to companies that have been without insurance for at least a year. Call your state insurance commissioner for details. More states are expected to remove mandates for small companies next year.

uses state funds to subsidize marketing and administration. That lowers the cost of premiums employers pay to enroll their workers in a local HMO. A 35-year-old adult male pays \$75.52 a month for the standard option plan; family coverage is \$198.95.

Eighty percent of the companies enrolled have three or fewer employees, says Ree Sailors, the corporation's director. The legislature more than doubled the plan's subsidy this year to \$4.7 million, permitting it to expand into 11 rural counties by next June.

In Denver, the Shared Cost Option for Private Employers (SCOPE) accepts small companies seeking to switch to a lower-cost health plan, as well as those currently uninsured. SCOPE, in operation less than a year, is providing health insurance to 471 companies covering 4,296 individuals.

SCOPE's health plan is the only project funded by the Robert Wood Johnson Foundation that operates without a government subsidy. It cuts premium costs by requiring relatively high deductibles and coinsurance (the percentage of costs not covered by insurance)

operating statewide in Michigan, Tennessee, Utah, Washington, and Wisconsin as well as those in Tucson, Ariz.; Brunswick, Maine; and San Francisco.



Seek Out New, Low-Cost Plans Offered By Some Insurers

The low-cost health-insurance plan offered by U.S. Life Insurance through the SCOPE program in Denver already has inspired similar plans, says David Dunn, a senior vice president of U.S. Life. "Just because of SCOPE, most of the carriers in Denver have tried to de-

Determine If You Are Eligible For One Of The Low-Cost Pilot Projects Operating In 10 States

Pilot projects funded by the

Robert Wood Johnson Foundation of

The Ins And Outs Of Managed Care

You will hear a lot about managed care in the 1990s. Although it can be carried out in various ways, its purpose is always the same: to weed out unnecessary or inappropriate medical treatment. It is estimated that up to 30 percent of all medical services are unnecessary. Less waste would mean lower overall costs.

Managed-care options range from loosely structured to tightly controlled. The former provide maximum freedom in choosing doctors and minimum cost controls. The chief example is traditional indemnity health insurance with managed-care features added on.

The most tightly controlled managed care offers minimum freedom of choice and maximum cost control. The chief example is an HMO (health-maintenance organization) operated from a clinic with doctors on salary. Under an HMO, all medical services are covered by a flat monthly payment made by the employer. Enrollees usually pay \$5 to \$10 per office visit, but there are no deductibles or copayments.

Between these two extremes are PPOs (preferred-provider organizations) and open-ended HMOs. PPOs provide doctor and hospital services at a discount, usually 10 to 20 percent. A PPO encourages its enrollees to choose doctors from its roster by setting no copayments or deductibles for those doctors' services. Although PPOs do allow enrollees to see doctors not on the roster, enrollees who do so incur greater out-of-pocket expenses because copayments and deductibles are imposed. The same types of expenses apply for enrollees in an HMO who use doctors not on the HMO's roster; this is the feature that makes an HMO open-ended. (Traditional HMOs generally do not allow enrollees to use non-HMO doctors.)

The unifying principle among all these plans is this: the greater the degree of health-care management, the less freedom for individuals in selecting doctors and hospitals.

To date, most small employers have preferred freedom of choice over cost control. But the upward spiral in health-insurance costs is forcing them to focus on cost-cutting measures. Picking a managed-care program should be

at the top of the list for a small firm.

Experts say HMOs offer the highest quality of care with the most effective controls over costs. But there are important differences among HMOs. They come in four models: staff, group, individual practice associations, and networks:

- Two of the types—the staff model (physicians on the HMO's staff) and the group model (a group practice under contract to the HMO)—manage both costs and quality. Their doctors work in clinics and are salaried, so they have no financial incentive to provide unnecessary treatment.

- The individual practice association (IPA) type of HMO contracts with doctors who practice in their own offices. They treat HMO patients in addition to non-HMO patients, and they are paid on a fee-for-service basis. This is a major departure from the original HMO concept of prepaid medicine.

- The network model HMO is a hybrid that combines one or more of the above models.

Any type of HMO may choose to operate an open-ended plan.

Despite the advantages of staff and group HMOs, PPOs and traditional health plans with added managed-care features are more popular primarily because they allow enrollees more freedom of choice. But freedom of choice comes at a price. PPOs and managed-care traditional plans fail to pack much cost-containment punch because they pay doctors on a fee-for-service basis. Thus, all that a doctor has to do to offset the financial effect of a PPO's discounts is increase the intensity of services, generating more billings.

Moreover, utilization review and other managed-care features added to traditional health insurance have curbed hospital costs while producing an uncontrolled surge in outpatient costs.

Given clear employee preference for loosely structured but more expensive managed-care plans, employers have two choices, says InterStudy, a Minneapolis research organization that focuses on managed care. The companies can offer employees more tightly controlled plans that have the best potential for controlling costs and utilization, or they can give employees the flexibility they desire but require them to pay the cost differential.

Increasingly, employers can't afford the third option—the status quo.

sign similar products to appeal to the same market," says Dunn.

He has encouraged other insurers to copy the plan and offer it elsewhere. A number have shown some interest in doing so.

Blue Cross and Blue Shield organizations also have launched a number of low-cost plans designed for small companies and the uninsured. Blue Cross of Tennessee offers a comprehensive, non-group program called Impact, for employers with four or fewer workers. Premiums for individuals start as low as \$28.13 a month.

Blue Cross and Blue Shield of Oregon offers a PPO for small groups. Premiums are about one-third less than those of regular Blue Cross plans.

There are, of course, other ways to cut health-care costs. The additional options that follow are common among mid-sized and larger companies yet are within the reach of many small firms:

- Start a wellness program that promotes healthful behavior. By some estimates, about one-half of all health problems are related to lifestyle choices such as smoking and neglecting to get proper exercise.

- Explore the feasibility of using a mail-order prescription drug program if you have employees who need large quantities of high-cost maintenance drugs. Mail-order pharmacies do a high-volume business and offer unit prices based on that volume. They are often more aggressive in providing lower-cost generic drugs, which can be a cost saving in itself when appropriate.

- Eliminate mental-health and drug-dependency care from your health plan, and contract for this coverage separately, using a quality managed-care company that specializes in these services. This strategy can save you 10 to 40 percent of your health-care costs. Mental-health and drug-dependency care are the fastest growing segments of medical plans today. Experts argue that much of the treatment now provided is inadequate or unnecessary.

- Offer a cafeteria-style benefits plan. Cafeteria plans allow employees to tailor their benefits to their individual needs, and they also enable employers to establish limits on company contributions.

For small companies, the frontier in health-care cost management lies in direct contracting with doctors and hospitals. Fred Rohm, of the New Castle County Chamber of Commerce, is ea-



**10 ways to cut
your health-care
costs now**

ger to test how well this works. Although his plans are still in the formative stage, Rohm knows what he wants: a health center staffed with salaried doctors who would provide basic services to employees and dependents of hundreds of small companies in his area. Patients would receive routine care at the center, including X-rays and laboratory tests. As necessary, the staff doctors would channel patients to outside specialists who would work for discounted fees. Hospital treatment would be paid according to a set fee schedule reflecting significant reductions from usual charges.

"I think we can sell the plan if we can price it at \$60 to \$75 per month per individual," says Rohm. That's about 40 percent to 50 percent less than the typical health-insurance plan.

Rohm is negotiating with JSA Health Care Corp. of Columbia, Md., to set up the proposed health center. JSA is one of a handful of companies nationwide breaking into the business of setting up health centers with "company doctors" for corporate clients.

Joseph L. Falkson, JSA's director of primary health care, says the company currently runs seven similar health centers for dependents of U.S. military personnel, and those centers have succeeded in holding down costs. "We have calculated that between 1986 and 1989, we had 1 million patient visits at the centers," he says. "Our estimate is that we saved the military \$40 million over what it would have spent if our patients had been purchasing typical fee-for-service medical care."

Company health centers represent just one approach for solving the health-care problems faced by American business. Clearly, there is no one solution best for all, but there are many small ways in which individual companies, business groups, insurers, and government can chip away at the problems today while contributing to a lasting solution for the future.

Time will tell whether any of the recent innovations in health-care delivery will lead the way out of the current crisis. But workable solutions need to be developed sooner rather than later. The nation's employer-based health-insurance system can't take too many more years of 20 percent price increases. **B**



To order reprints of this article, see Page 71.



PHOTOS: © WILL DICKER—BLACK STAR

Dr. Bill Neese examines X-rays at JSA Health Care Corp.'s Navcare Clinic (inset) in Mayport, Fla., near Jacksonville. Such centers could bring back the company doctor for large and small firms alike.

Small-Group Health Insurance Checklist

The following checklist will help you compare policies presented to you by your insurance agent.

PLAN

1. What medical services are covered?
 - Inpatient hospital services
 - Outpatient care
 - Psychiatric care
 - Skilled nursing care
 - Home health-care visits
 - Rehabilitation-facility care
 - Hospice care
2. Are benefits for medical services limited or excluded?*
3. How are pre-existing medical conditions covered?
4. How long is the insurance rate guarantee?
5. Does it offer a health-care certification program to review quality and cost effectiveness?
6. Does it offer a catastrophic-case-management program?
7. Does it offer a high-risk-maternity program?
8. What is the policy's lifetime maximum amount of coverage?
9. What does the policy cost?***

INSURANCE COMPANY

1. How long has the company been in the small-group market?
2. Does the company specialize in small-group insurance?
3. What is its financial rating according to A.M. Best?

SERVICE

1. Who will administer the program?
2. Is customer service easily accessible through a toll-free number?
3. What type of claims processing system is used?
4. How long will it take for my application to be processed by the underwriters?
5. How long will it take to process a claim?
6. How often will I be billed?

* See sales materials for details on the number of days of treatment and dollar maximums provided.

** All major medical plans have limitations and exclusions. This information should be disclosed in the sales materials. Be sure you understand these limitations and exclusions before you make a purchase.

*** Premiums vary depending on age, geographic location, and level of coverage. Check with your agent.

Source: Celtic Life Insurance Co.

SPECIAL REPORT

Competition Drives Truck Sales

By Julie Candler

At the 1990 International Trucking Show, a number of top-level truck-manufacturing executives were quietly but intently collecting brochures and examining their competitors' entries. Their unusually close scrutiny of one another's products at the Anaheim, Calif., event illustrated the current competitiveness in the medium- and heavy-duty truck markets. Another sign of that competitiveness is price cutting.

"We are selling at a lower average cost than we did five years ago," says Brian Taylor, marketing manager of Kenworth, a Kirkland, Wash., manufacturer of heavy-duty trucks. "I think all our competitors are doing the same."

"We can talk safety and we can talk product, but price is the story this year," says Halden L. Booth, vice president for sales for the On-Highway Products division of Rockwell International Corp., of Troy, Mich.

In the light-truck market, it takes sweeteners such as incentives and rebates to stimulate the buying urge of most consumers. Ford Motor Co., of

Dearborn, Mich., estimates that rebates and price incentives averaged \$1,050 per car and light truck in the second quarter.

Here are the latest developments in the trucking industry, followed by descriptions of some offerings for the 1991 model year.

Light-Duty Trucks

The biggest news in the light-duty market is the growing popularity of four-wheel-drive utility vehicles such as Jeeps and Toyota Landcruisers. Some experts say the rugged vehicles will overtake minivans in sales volume, particularly among family buyers. Some manufacturers are adding four-door versions of their utility models to appeal to the family trade. And the market is attracting newcomers; Romania this fall plans to offer U.S. buyers its four-wheel-drive Aro 244 Hunters with Ford 2.3-liter engines.

Light-truck makers aiming at both the commercial market and the personal, or family, market sometimes try to do both with the same truck. For that reason, truck makers are introducing

new body styles and technical innovations, such as improved powertrains, suspension systems, and comfort features. "There's a blurring in the spectrum between car and truck," says Tom Gale, vice president for product design at Chrysler, in Highland Park, Mich.

Meanwhile, many firms prefer utility vehicles for maneuvering around job sites and through snow, mud, and other hindrances.

All-wheel drive (AWD), which improves handling and safety by transmitting engine power to both front and rear wheels, has been added to a number of light trucks, starting in 1989 with the Chevrolet Astro minivan.

Despite heavy competition, basic prices on many light trucks are increasing in 1991. There will be more price increases as the federal government mandates more safety equipment, fuel economy, and exhaust-emissions controls on light trucks by the mid-1990s.

Medium-Duty And Heavy-Duty Trucks

Manufacturers of larger trucks must meet new federal exhaust standards. All diesel-powered trucks built in 1991



Improvements from bumper to bumper are making trucks more affordable and versatile—especially for smaller firms—and competitiveness is squeezing their prices. Here are many of the latest models.

or later must comply with strict federal rules on emissions of sooty particulates. A spokesman for Cummins Engine Co., in Columbus, Ind., a leading builder of heavy-duty engines, estimates that mechanical changes to make sure a new truck meets the standards will increase its price by \$1,000 to \$1,500.

Steve Allen, vice president and general manager of Isuzu Truck of America, in South El Monte, Calif., says an increase averaging 3 percent on 1991 models basically covers the phasing in of new emissions controls. Thomas Neil III, marketing manager of Mitsubishi Fuso Truck of America, in Bridgeport, N.J., says his firm will have to raise prices for 1991 because of emissions controls and because of its decision to upgrade tires.

Ford is meeting emissions standards by upgrading fuel injection, governing systems, and air-to-air aftercooling in medium and heavy engines. John H. Merrifield, Ford's manager of heavy-truck sales, told *Automotive News*. He said the changes improve fuel efficiency without the use of electronics or ex-

pensive exhaust aftertreatments.

Most truck makers, however, are controlling particulates with electronics. The greater use of electronics in the big Class 8 vehicles (trucks of 33,001 or more pounds gross vehicle weight, or GVW) is prompting manufacturers to include other electronic features such as cruise control, computerized on-board engine-performance recorders, and engine-protection devices.

To meet the growing demand for lighter-weight mediums, GMC and Chevrolet have added vehicles that fit the smaller Class 4 category (14,001 to 16,000 pounds GVW).

Freightliner deserves recognition for its safety measures in making available three-point occupant-restraint systems, automatic brake adjusters, and wide-angle right-side mirrors. Last fall, Freightliner made bobtail air-brake proportioning valves standard. The valves optimize braking between axles for safer operation. Freightliner was the first truck builder to make available antilock braking systems (ABS).

Most truck manufacturers now offer ABS as an option. Insurers such as As-

sociates of Dallas, a Ford subsidiary, and Freightliner's Mercedes-Benz Credit Corp. offer lower premiums on vehicles equipped with ABS. Eventually, the systems may be federally mandated.

What's New in Light Trucks

Following are descriptions of new light-truck offerings for Classes 1 (up to 6,000 pounds GVW), 2 (6,001 to 10,000 pounds) and 3 (10,001 to 14,000 pounds).

Chevrolet. A four-door version of the S-10 Blazer went on sale this spring as a 1991 model. It has front bucket seats, a three-passenger rear bench, and 74 cubic feet of cargo space, which is 25 percent more than the capacity of the two-door models. Power comes from the same 4.3-liter V6 fuel-injected engine of the two-door models. When announced in January, the new four-door Blazer was priced at \$16,905 for the 4x4. A restyled 1991 two-door Blazer begins at \$12,966.

Chevrolet emphasized that its new sweeping-profile Lumina APV has a cargo version for the commercial buyer looking for a work van during the week



SPECIAL REPORT

and a passenger vehicle on weekends. It provides nice handling, and it offers seating comfort, good acceleration, and an easy-to-lift tailgate.

Chrysler. All-wheel drive and four-wheel antilock brakes are offered on 1991 minivans—Chrysler's Town & Country luxury minivan, Plymouth Voyager, and Dodge Caravan. The minivans also get a new aerodynamic look in their sheet metal, plus upgraded steering and suspension.

Daihatsu. The sporty 4x4 Rocky utility vehicle from this Japanese manufacturer has a four-cylinder, 1.6-liter, 16-valve engine and gets automatic locking hubs for 1991. Daihatsu says the Rocky's track—57.9 inches—is the widest of any vehicle in its midsize class.

Dodge. A 5.2-liter engine for the Dodge Dakota becomes the industry's first V-8 offered in a small pickup (automatic transmission only). A Dakota Club Cab model will be in the '91 lineup with four-wheel drive. The paneled Ram Van and the multipurpose Dodge Caravan C/V now can be obtained with all-wheel drive and antilock brakes. For its D150 long-wheelbase model, the standard-size Ram pickup is now available with a 6,200-pound GVW.

Ford. Introduced last spring as an all-new entry in the compact-utility-vehicle segment, the Explorer handles well and comes in two- and four-door models. It's revving up to overtake its archrival, the Chevy Blazer. The Explorer has a two- or four-wheel drive with shift-on-the-fly capability. A fuel-injected V-6 with five-speed manual or four-speed automatic overdrive transmission powers the vehicle. Its rear step bumper can be used to pull a 3,500-pound trailer. Aero styling includes flush-mounted windows that reduce wind noise and improved fuel economy, now 15 miles per gallon for city driving and 20 mpg in highway use.

GMC. GMC unveiled a five-seat, four-door version of its S-15 Jimmy, a compact sport-utility model with 10 percent more cargo room than the two-door model. S-15 pickups were renamed Sonoma and given a restyled front end similar to the full-size Sierras. GMC also added all-wheel drive on its midsize Safari van. A replacement for the nine-passenger Suburban wagon is in the works.

Isuzu. A third sport-utility vehicle, the four-door Rodeo in either a two- or a four-wheel-drive model, joins the lineup of American Isuzu Motors. Isuzu says the six-passenger vehicle has the longest wheelbase in its weight class and can carry two adults plus a half ton of cargo. It can be equipped with a fuel-injected in-line four-cylinder engine, or a 3.1-liter V-6. Both five-speed manual



Chevrolet S-10 Extension Cab pickup.



Daihatsu 4x4 Rocky.



Ford four-door Explorer.



GMC four-door Jimmy.



Isuzu four-door Rodeo.

and four-speed automatics are available with the V-6. Isuzu is pricing the base two-wheel-drive model "S" below \$13,000.

Iveco. For the business that needs additional capacity but does not require a full Class 4 vehicle, the 1991 Euro-Turbo 13-14 offers a Class 3 model with a gross vehicle weight rating (GVWR) of 13,250 pounds. The maximum weight of the body that the customer chooses, plus payload, is 7,430 pounds, with a six-cylinder turbo diesel rated at 135 horsepower and 347 foot-pounds of torque.

Jeep. Higher-output 2.5- and 4.0-liter engines will be available for the 1991 Jeep Comanche standard pickup, the 4x4 Wrangler two-door sport utility, and the Cherokee multipurpose vehicles. Two upscale 4x4 four-door models, the Sport and the Briarwood, have been added to the Cherokee line.

Mazda. The trade route switches from West to East as Japan-based Mazda adopts a utility vehicle from its U.S. partner, Ford. The 1991 Navajo is a two-door compact sport-utility cousin of the new Explorer, engineered and built by Ford and described above.

Mitsubishi. A 3.0-liter V-6 engine was made standard on the two- and four-door Montero utility vehicles and the Mitsubishi Mighty Max 4WD pickup for 1990. Mitsubishi upped the horsepower to 143, provided 168 foot-pounds of torque, and increased towing capability to 3,500 pounds. The Mighty Max 2WD got more power from a new 2.4-liter four-cylinder engine.

Mitsubishi Fuso. The first diesel-powered four-wheel-drive Class 3 truck with cab-forward design, the 11,600 GVW FG 434 is for use on or off the road and on snow, sand, or steep grades. Mitsubishi Fuso sees this truck as useful for construction-materials firms and for utility and maintenance work.

Nissan. After introducing a four-door Pathfinder utility vehicle and more powerful engines for its pickups last year, Nissan for 1991 is basically a carryover. Its Axxess MPV, introduced last year, now is marketed only in Hawaii. Nissan and Mercury are collaborating on a luxury front-wheel-drive minivan slated for a 1993 sale.

Oldsmobile. Last year's Silhouette MPV minivan was the first Olds truck in about 40 years. The firm follows for 1991 with the 4x4 Bravada, a luxury sport-utility vehicle. The five-seater provides 74.3 cubic feet of cargo capacity with rear seats folded. It is based on the compact S-10, with wheelbase extended 6.5 inches, to 107 inches. Its 4.3-liter V-6 engine and four-speed automatic transmission are standard. Olds says the preliminary rated towing ca-

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capacity is 5,500 pounds, considerably higher than the towing capacities of its competitors. Yet fuel economy is rated by the EPA at 17 mpg city, 22 highway. Its all-wheel drive is designed so that torque is provided full time to all four wheels without driver action. Combined with antilock brakes, the system is called SmartTrak. There's a sophisticated driveline for eliminating wheel slip, making it an all-weather vehicle.

Suzuki. The standard four-wheel-drive Samurai adds two all-new two-wheel-drive relatives, the base JA with no top or rear seat, and the standard JS with a canvas softtop and rear seat. Suzuki says that the \$5,999 price of the base JA model makes Samurai the lowest-priced sport-utility vehicle available. The larger Sidekick arrives in November with a hardtop and four doors, available with 4x4.

Toyota. The sleek-looking Previa minivan arrived this past spring as a 1991 model. While aimed specifically at the family market and not offered in a commercial version without seats, the quiet, comfortable, well-equipped vehicle has rear seats that fold out of the way. Toyota says the Previa has 157.8 cubic feet of cargo volume behind the front seats, more than any American minivan except Ford's stretched Aerostar. The Previa can be equipped to seat five or seven passengers. Its 16-valve 2.4-liter four-cylinder engine is innovatively placed at a 75-degree angle beneath the driver's seat. It delivers 90 percent of its maximum torque from 1,200 to 5,000 rpm, for increased around-town and towing flexibility. Its rear-drive layout gives it a 3,500-pound towing capacity. It is also available with full-time all-wheel-drive.

The 1991 Toyota Land Cruiser, with many features of a car and with full-time four-wheel drive, has a wider track and a wheelbase that's four inches longer than its predecessor's, and it is nearly 4.5 inches taller. Its optional third seat increases capacity to eight passengers, but it can be folded out of the way on either side. The upscale vehicle is available with luxurious extras such as a nine-speaker stereo-CD system. It retains its 4.0-liter, fuel-injected, six-cylinder engine producing 155 horsepower at 4,000 rpm.

What's New In Mediums And Heavies

Following are new features and/or vehicles in Classes 4 (14,001 to 16,000 pounds GVW), 5 (to 19,500 pounds), 6 (to 26,000 pounds), 7 (to 33,000 pounds), and 8 (33,001 pounds and up).

Chevrolet. For an entry in Class 4, Chevrolet is introducing for 1991 a new model chassis cab with a 15,000-pound GVW. It comes in cab-to-axle lengths of 60, 84, and 108 inches for use in applica-



Ivesco EuroTurbo 15-14.



Mazda two-door Navajo.



Mitsubishi Mighty Max pickup.



Oldsmobile 4X4 Bravada.



Toyota Previa minivan.

tions such as commercial towing.

Ford. The latest from Ford is its new Aeromax 120, a Class 8, long conventional tractor that becomes available in January. In presenting it, Ford's general operations manager, Kenneth F. Smith, said the company is committed to serving over-the-road drivers and fleets. He announced a new emergency-road-service program and the tripling of Ford's investment in new-product development for the next five years. The Aeromax's aerodynamic lines are expected to translate to an 8 percent improvement in fuel economy over Ford's other long conventional. The tractor's front axle is set back 53 inches for maximum front-axle loading and good maneuverability. It is offered with Cummins and Caterpillar engines; a Detroit Diesel Series 60 will be available later.

Ford also offers an Aeromax 8000 "Baby 8" for local and intercity hauling with up to 75,000 pounds gross combined weight of truck and cargo.

Freightliner. To help bulk-haul/high-density operators find the most productive way to comply with federal weight restrictions for trucks on bridges, Freightliner has introduced the Dual Steer cab-over-engine truck. By doubling the number of front steering axles, it enables operators to increase gross weight under the restrictions. It can increase high-density cargoes as much as 25 percent over standard tractor/trailer rigs and as much as 60 percent over traditional straight trucks. Freightliner says the handling and the turning radius are significantly improved over trucks with a single high-capacity front axle and bulky flotation tires that restrict wheel turning.

Freightliner's new Class 8 models include an elegant SilverAero limited edition. It stretches a 120-inch bumper-to-back-of-cab (BBC) set-back front axle SleeperCab Convention to make the cab 70 inches long. It adds AirLiner Suspension to cushion work and sleep areas, a six-speaker sound system, fold-down table, a portable toilet, shower, and plush upholstery.

An aluminum cab, set-back front axle, and shorter nose mark the FLD 112 tractor, a medium-length conventional. Mike Richardson, general transportation manager for Farm Fresh, Inc., of Ponca City, Okla., which uses three FLD 112 trucks to transport milk and ice cream, calls it "a long-haul truck with flexibility to handle regional and urban distribution."

GMC. A prototype Sierra 3500 HD with a 15,000 GVW chassis cab was displayed at the International Trucking Show. GMC says it will go into production in the 1991 model year to compete in Class 4. It combines the comfort and conveniences of the full-size light-duty



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pickup with chassis components for medium-duty work, powered by a 5.7-liter EFI gasoline engine or optional 7.4-liter alternative. It has a heavy-duty four-speed overdrive manual or five-speed automatic transmission.

Hino. A new Class 5 GC17 series features what Hino claims is the lowest frame height for any low-loading truck at its 19,000 GVW rating. A special suspension makes the frame height of the GC175 with a typical van or carrier body less than 29 inches, which is useful for moving vans, furniture and appliance delivery vehicles, pickup and delivery trucks, and car carriers.

Isuzu. The nation's No. 1 medium-duty truck importer, Isuzu increased sales by 15 percent to 25 percent yearly in the past four years. In response to customer requests, the firm for 1991 has added to its F series trucks a new Class 6 FSR low-profile chassis cab at 20,000 pounds GVW. Top gross vehicle weights on its Class 7 FTR have been upgraded by 240 to 500 pounds.

Iveco. An all-new rail chassis, the EuroTurbo 15-14AS for Class 4, meets requirements of U.S. makers of walk-in vans, according to Iveco. The models feature automatic transmission and power steering as standard, with six-cylinder turbo-diesel power. A new Class 5 model 18-16, rated at 17,800 GVW, is one of the highest-horsepower diesels in Class 5, according to Iveco, and it is well-suited for a rollback body, a stake bed, or a refrigerator body.

Kenworth. Antilock braking systems were made available across the board, and changes have been made to round out the T400 short-haul and T450 construction lines adaptable to specific vocations. Only a few changes have been made to the Class 7 Mid-Ranger K150 and K130.

Mack. A newly designed Renault AE500 Class 8 tractor with a European-certified EE9 engine by the firm's partner, Mack, was displayed at the International Trucking Show. The 500-horsepower engine represents the most powerful truck diesel in Europe. Mack also showed its new V-Mac, which it claims is the trucking industry's first in-cab, fully integrated, all-vehicle electronic control system. The system manages, controls, and provides information to the driver on engine, transmission, and brake components.

Mitsubishi Fuso. The FK-MR455, a 25,995 GVW Class 6 truck, introduced in July, is targeted for medium-duty applications where heavier load-carrying capabilities are needed. Its engine is a Mitsubishi-built 400.1-cubic-inch turbocharged six-cylinder with maximum torque at 408 foot-pounds. A five-speed transmission is standard. Mitsubishi Fuso also is adding premium radial



Freightliner FLD 120.



Renault AE500, with a Mack engine.



International 9700 Hi-Rise.



Nissan UD 2800.



Volvo GM's WHITEGMC Integral Tall Aero ES.

steel-belted tires, with rear-traction tires standard on two models.

Navistar International. Among many improvements is a fully synchronized International medium-duty truck transmission that features an extra-low gear to improve starting. A new 9700 Hi-Rise cab option allows stand-up room in the sleeping compartment. A double bunk is optional on tractors with 110-inch-BBC cabs.

Navistar has introduced a limited edition of 500 elegant conventional tractors, the model 9400 Super Eagle. The firm also offers a new sleeper-cab heating and air-conditioning system that eliminates the need for overnight engine idling and keeps the engine block warm for better cold-weather starting.

Nissan UD. No major changes were announced from Nissan Diesel America, a subsidiary of Nissan Diesel Motor Co., the Japanese manufacturer of UD trucks. The firm distributes a product line representing Classes 3, 5, 6, and 7, plus a Class 7 UD550T tractor.

Peterbilt. The Mid-Ranger 265 tractor and the 224 and 227 trucks remain unchanged. Optional new air-suspension systems are available for all 12,000-pound and heavier Class 8 front axles. Refinements to the model 372 cab-over-engine design for long hauls give it almost seven feet of stand-up room. Antilock braking systems were made available on all models.

Scania. A realignment move formed the Scania Division of Saab-Scania AB to import and distribute Swedish-made Scania trucks. Previously, U.S. truck operations were a division of Saab-Scania, which now concentrates strictly on passenger cars. The realignment results from a joint venture between Saab-Scania AB and General Motors (Europe) AG. Most Scania dealers are in the Northeast.

Volvo GM. At the International Trucking Show, Volvo GM showed a concept WHITEGMC integral tall sleeper with stacked twin bunks and the roof fairing serving as the structural roof of the cab. Volvo GM Heavy Truck Corp. announced plans to begin assembling Volvo FE series tractors and trucks in the U.S. next January. They formerly were produced in Europe. The change enables Volvo to offer more component flexibility.

Western Star. A model 5900 Class 8 Trail Star arrived at the truck show with a Cummins 444XT engine with a six-year, 600,000-mile protection plan. The special-issue forest-green vehicle transported Western Star's Outdoor America Caravan, delivering 450 trees for planting across the nation. Western Star added a severe-service vehicle to its 6900 series and added comfort features to its cabs. ■

EDUCATION

Do Public Schools Miss The Mark?

By Joan C. Szabo

Most Americans believe that the public-school system is failing to prepare students not only for today's jobs but also for those of the future.

And they recommend that business take the lead in spotlighting education problems and developing solutions.

Those views were among the key findings of particular interest to business in a recent survey of public attitudes toward education.

The survey was conducted by the Roper Organization for the Center for Workforce Preparation and Quality Education, which the U.S. Chamber of Commerce established to coordinate business efforts to improve the public-school system.

The Center's goals include identifying successful techniques, policies, and programs to improve education quality, and increasing the visibility of the extensive role that business plays in efforts to achieve that reform.

In summarizing its findings, the Roper Organization said: "Americans do connect the economic success of this country with education. And they do not see the public schools up to the challenge—a majority of Americans do not see the public schools adequately preparing students for the increasingly technical jobs that will be prevalent in this country in the future."

"Overall, the public is receptive to involvement by the business community with the local school system. Concerns about a declining public education system, combined with worries about economic competitiveness, make for a climate amenable to the improvements in education that the business community has to offer. Large majorities—including union households—feel it is a good idea to get the business community involved on various levels."

These were results of the Roper survey as they relate to the links between business and schools:

- Seventy-five percent of the American people "agree with the business community that the public-school system is failing to prepare students for jobs" in today's work force. Americans connect national economic success with education; 57 percent feel education is the main reason behind the economic success of those European and Asian

countries that are increasingly competitive with the United States. And 75 percent of Americans view these countries as a serious economic threat.

- More than 60 percent feel that there is a strong connection between this country's education system and its economic strength, and a majority of Americans see a direct link between a sound school system and the health of the local economy.

- The public is receptive to the involvement of business in local public education, favoring such steps as providing equipment to schools. (See the accompanying chart.)

- Nearly two-thirds of consumers recognize that they face higher prices when businesses have to make up educational shortcomings of workers.

- Nearly 80 percent believe that a firm unable to find qualified workers in

Students are being shortchanged for the workplace, survey participants say, and business has a role in education reform.

its location should remain there nonetheless and set up training programs for local workers, even if that raises its costs of doing business.

- Looking ahead to the year 2000, 63 percent said that most of the students now entering the third grade would lack the skills needed for jobs that are becoming increasingly technical. Sixty percent said that most current workers will not be able to keep up with technological changes.

- Nearly 60 percent see retraining of workers as a joint business-government undertaking. Only 12 percent see it as an exclusive function of government, and 24 percent see it as an exclusive function of business.

Edward Donley, who is chairman of the Chamber's Center for Workforce Preparation and Quality Education, said in announcing the findings of the





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survey that they show that "the American public considers the business community the education safety net for the nation. Business clearly has been given a mandate to lead the way to better public schools and to help education in general.

"The education system has become complacent, just as American business had become complacent 10 or 15 years ago," he said, referring to problems many U.S. firms encountered from heightened foreign competition.

Donley, chairman of the Executive Committee of the Board of Directors of Air Products and Chemicals, Inc., Allentown, Pa., said, "Business has gone through a wrenching restructuring to make itself more competitive, but public education has yet to go through such a restructuring to make itself more competitive with education systems around the world."

Robert L. Martin, vice president/executive director of the Chamber's workforce and education center, said, "A majority of Americans want business to step up and confront the issue" of improving education quality.

The survey covered a nationally representative sampling of 1,003 adult Americans. In eliciting general attitudes toward education, Roper found that 91 percent of Americans are concerned about the quality of public

*Business clearly has
been given a mandate
to lead the way to
better public schools
and to help education
in general.*

—Edward Donley, chairman of the
Center for Workforce Preparation
and Quality Education.

schools in their communities, with 61 percent describing themselves as very concerned.

Just over half of all respondents feel that the quality of public education has declined to some degree over the past few years, and only one-third see even slight improvement.

The respondents generally did not seem to fault any one group—teachers, administrators, parents, or even the students themselves—for the perceived lack of educational quality. In fact, they felt that the various groups associated with public education carry out their responsibilities well, although they di-

rected more criticism at parents than at any other group.

When asked whether a longer school day would enhance the quality of public education, 74 percent said it would not. But over 50 percent said allowing parents to choose the school their children attend would in fact have an impact on quality.

More than half of the respondents felt that education quality would be improved if persons who are knowledgeable about a subject were allowed to teach it even if they were not certified as teachers. Thirty-nine percent disagreed.

A majority—58 percent—in the Roper survey felt that more money will have to be spent if the quality of education is to improve significantly. Thirty-four percent, however, said they felt that enough money currently is being spent on public schools.

Respondents were ambivalent about unions in the schools. While 85 percent said that unions had been very useful in improving the pay, benefits, and working conditions of teachers, 75 percent rejected the claim that teacher strikes don't hurt students because the work stoppages generally do not last long. And 50 percent of respondents felt that unions have held back changes necessary to improve education quality.

The intense concern about education-

EDUCATION

al quality shown by the public at large and reflected in business's reform efforts stems from a series of increasingly negative reports in recent years on school performance.

The National Assessment of Educational Progress (NAEP), a federal project, reported this year that nearly 60 percent of today's 17-year-olds lack the reading skills necessary to comprehend materials common in business and higher education. NAEP was established in 1969 by Congress to measure the achievement of students in all grades through high school.

In addition, a recent report by the Business Roundtable, an association of 200 major corporations, found that up to 60 percent of high-school graduates are not prepared for entry-level jobs.

Whatever steps are taken to deal with such school-based problems as unqualified workers, the cost to business could be high. Citing the Roper findings, the Chamber education center's Donley said that the public expects business to bear "a double whammy" in education reform—paying higher taxes to finance improvements while shouldering heavy costs to train and retrain workers. **■**

Helping Business In Education Reform

The U.S. Chamber of Commerce's Center for Workforce Preparation and Quality Education was established to elevate the visibility of business in the education-reform movement and to help state and local chambers of commerce devise ways to achieve education reform in their local communities.

The Center is developing a national campaign to link business, education, and community leaders.

As part of this effort, the Center has developed a number of resources for local chambers and business people to use in their education-reform drives.

The following publications and videotapes can be ordered by writing to the Center at 1615 H Street, N.W., Washington, D.C. 20062.

Teaching Tomorrow's Workforce is a kit that includes a report and a videotape stressing the need for educational reform. It is one in a series of action kits being developed to help promote a common program for state and local chambers nationwide. The first copy is \$10, and each additional copy is \$3.50. The tape sells for \$19.95.

Improving The Business Of Education, the Center's most recently released action kit, includes a report and a videotape. The kit provides detailed information on how to generate community interest and initiate local reform activities. Both the report and the tape explore the concept of comprehensive, broad-based action and tell how communities can make it work. The report is \$10 for the first copy and \$3.50 for each extra copy. The tape is priced at \$19.95.

The Pocket Educationary, to be released in the fall and priced at that time, is a 20-page, pocket-sized business guide to the language of education. The practical glossary explains commonly used education terms such as at-risk youth and education restructuring.

Public Attitudes Toward Education is a Roper poll assessing American attitudes concerning the U.S. education system and focusing on how improvements can be achieved through community efforts. The press kit is available for \$10.

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Introducing The Blue Chip Enterprise Initiative.™



Statistics show small businesses are responsible for much of the innovation, new jobs and prosperity this country enjoys. In a very real sense, they are the Blue Chip companies of today.

But small firms are facing increasing pressures, ranging from a slowing economy to the increased competition within their markets. Helping businesses compete successfully has become a national priority.

Providing small businesses with proven methods for meeting these challenges is one of the best ways to improve their competitive capabilities.

This is why Connecticut Mutual Life Insurance Company, with the endorsement of the U.S. Chamber of Commerce, is launching the Blue Chip Enterprise Initiative.

Information and Prestige Small Businesses Can Use to Compete.

This Initiative will seek out those Blue Chip companies which have already demonstrated the ability to overcome challenges and weather the cyclical nature of business.

From these companies we will cull actionable, real-world ideas for increasing business success and make them available to participating local and state Chambers of Commerce to share with their members.

As a reward for sharing their stories, and in recognition of their achievements and quality, Connecticut Mutual and NATION'S BUSINESS magazine will publicize the most exemplary businesses.

There Are Many Ways to Participate.

1. Join the Initiative by applying for the Award. You will be asked to describe the challenges you have overcome and how you managed resources to succeed. These resources may include human, quality assurance, marketing, community, financial, or technological resources. Companies with five to three hundred employees and three years of continuous operation are eligible.
2. Nominate your employer, clients, or a company in your community.
3. Participate in some of the practical forums for sharing these ideas that will be held through participating Chambers of Commerce (if you're not already a Chamber member, here's a great reason to join).
4. Capitalize on some of the ideas the Initiative generates. This is what the program is all about.

How It Works.

Up to four Blue Chip Enterprises will be designated for an award in every state and the District of Columbia. These two hundred companies will be recognized and provided with prepared marketing material for use in their advertising and signage. The companies designated will be listed in NATION'S BUSINESS and will

receive extensive publicity and promotional support.

From these companies, fifty one exemplary businesses—one from each area—will be identified. Each will receive featured coverage on "Nation's Business Today," seen weekday mornings on ESPN.

Ultimately, three National Representatives will be selected from these fifty one companies and invited to attend the U.S. Chamber of Commerce Annual Meeting in Washington in April 1991.

We emphasize that this Initiative is designed to help *all* American business. Therefore, every participating company will receive a certificate in recognition of its contribution to the American economy.

All Entries Must Be


Submitted by January 31, 1991.

Each state's Blue Chip designees will be notified in March. National designees will be notified in April.

Review will be conducted by an independent panel of experts in enterprise. These experts will also help in converting outstanding entries into actionable ideas for use by participating Chambers of Commerce.

For more information call 1-800-AWARD-91.

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INTERNATIONAL TRADE

Soviet Ventures: A Capital Idea

By William Mueller

Better Than Money Corp., a consulting firm in Bloomington, Minn., would not be on most people's list of candidates for successful Soviet joint ventures. It is a small firm, and the conventional wisdom is that business ventures in the Soviet Union are so difficult to establish and manage that only giant U.S. corporations like Pepsico and McDonald's ought to consider undertaking them.

But fortunately for John Tschohl, president of Better Than Money, conventional wisdom did not prevent him from participating in a 1987 trade mission to the Soviet Union led by Minnesota's governor, Rudy Perpich.

On the mission, Tschohl met Oleg Uralov, director general of Videofilm, a division of the Soviet film ministry. Tschohl proposed to Uralov a 10-year joint venture in which Better Than Money would make training films that Soviet managers in the hospitality industry could use to make their employees more hospitable.

Tschohl says he did not even have to show the \$2,000 demonstration film he had brought with him to sell Uralov on the project.

Although it took a year for Tschohl to close the deal, the wait was worth it. The venture more than doubled Better Than Money's annual revenues, from less than \$4 million to about \$8 million, within two years.

Better Than Money is just one of many small and mid-sized businesses based in the U.S. and other Western countries cashing in on the Soviet Union's New State Enterprise Law of 1987. In fact, some 90 percent of the 900 foreign joint ventures under way in the Soviet Union are capitalized below \$10 million, and the average is about \$2 million. These ventures encompass a wide variety of manufacturing and service activities, including:

- Design, assembly, distribution, and service of computers and automation systems.
- Development of computer software.

William Mueller is an Iowa-based free-lance writer who specializes in Soviet-U.S. trade and economic issues.

Small firms can do big business in the U.S.S.R.—and being small may help.



AlphaGraphics' first store in Moscow, on Gorky Street, came about after the Arizona-based company hired an agent with experience in Soviet deal making.

- Management of tours, hotels, and restaurants.
- Production of pharmaceutical and medical equipment.
- Design of control systems for the fertilizer industry.
- Construction and restoration of buildings.
- Marketing, advertising, and export management for Soviet products.
- Publishing of books and periodicals.

With the Soviet economy in shambles, many more export and joint-venture opportunities of all types remain for Western entrepreneurs.

The Soviets currently are pursuing joint-venture partners for about 300 projects they deem critical. About 80 percent of those projects are in five areas: agribusiness, chemical and timber production, social services, machine building, and construction.

The Soviets also are shopping for approximately 1,000 types of consumer

and industrial products, including color televisions, videocassette recorders, refrigerators, freezers, personal computers, automated industrial-process controls, footwear-manufacturing equipment, and food-processing and packaging machinery.

This shopping list is backed in part by a \$6 billion loan from a consortium of Western banks.

One mid-sized U.S. company benefiting from that loan is Microdynamics, based in Dallas. In the spring of 1989, Microdynamics, with annual sales of under \$50 million, won out over foreign companies several times its size in landing a \$6 million contract to provide computer-assisted design (CAD) equipment to five apparel plants and two shoe factories in the Soviet Union.

Ray Cotten, Microdynamics' vice president of marketing, says the Soviets will pump about \$1 billion into up-

grading an additional 150 apparel plants and 50 shoe factories. Cotten wants Microdynamics to capture part of that money, and he believes the company has what it will take to succeed. One ingredient is top-quality equipment for sale, he says, and another is the firm's size. "In our company, you run out of bureaucracy pretty soon," Cotten says. "The Soviets can go back to their bosses and say they have a commitment from the president or vice president. It helps them move faster."

According to Cotten, the third ingredient of a successful Soviet venture is a good agent or other representative with a successful track record in the U.S.S.R. This assertion is supported by the experience of AlphaGraphics, a franchisor of high-technology shops that offer quick printing and other publishing services.

In the fall of 1988, officials of AlphaGraphics, based in Tucson, Ariz., went

to Moscow seeking someone with whom they could establish a franchise. They interviewed 20 prospective partners, mostly state ministries that wanted to create or upgrade internal printing divisions. But such an arrangement was unsuitable to AlphaGraphics, which wanted a retail business, according to Donald Isaacs, vice president of consumer marketing.

In addition, says Isaacs, AlphaGraphics was intent on establishing an outlet that would take in both hard currency, which has value outside the U.S.S.R., and rubles, which do not. Hard-currency profits would be repatriated; ruble earnings would be used for maintenance and expansion within the U.S.S.R.

Finally, AlphaGraphics used a Canadian firm, Phargo Management and Consulting Ltd., of Toronto, to forge a Soviet partnership. Phargo was then engaged in a joint venture with Kniga Publishing House, a division of Gosko-

mistadt, the Soviet state committee for printing. Kniga wanted to open a retail printing operation, and a deal was struck through Phargo.

This AlphaGraphics-Kniga joint venture opened its first shop on March 6, 1989, at 50 Gorky St. in Moscow; it opened a second shop last Thanksgiving Day in the capital city's Hotel Cosmos. Most of the trade for these shops is with Western business and news-media representatives, who express no qualms about paying 25 cents to copy a page. Isaacs reports that through the first quarter of 1990, the shops had profits in both hard currency and rubles. The joint venture plans to expand to 10 shops within five years.

Although Soviet products generally are viewed as low in quality, in most industries there are products as good as or better than comparable goods made in the U.S. and elsewhere, and some are salable in this country. Thus, there is a potentially lucrative U.S.

Businesses Doing Business In The U.S.S.R.

There were approximately 1,100 joint ventures with the U.S.S.R. as of November 1989, Soviet officials say, and about 100 were with U.S. firms. The small number of joint ventures, reported in a U.S. Department of Commerce publication, is attributable to several things, says John Tschohl, president of Better Than Money, a Bloomington, Minn., consulting firm engaged in a successful Soviet venture.

According to Tschohl, Americans lack perseverance and commitment in dealings with the Soviets. Most U.S. business people, he says, "want to pick up a check, leave, and not come back." Other shortcomings cited by Tschohl include a general unwillingness to enter into ventures whose profits cannot be repatriated immediately, an inability to cope with the Soviet business culture, a failure to obtain adequate assistance or representation, and a lack of marketing savvy.

Better Than Money is working with its Soviet partner to produce a 60-minute videotape that will teach Western business people what they need to know to deal with Soviets. The tape will sell in the U.S. for \$1,000.

Following is some general advice from Tschohl and Charalambos Vlachoutsikos, a Soviet trader and business consultant based in California:

- Identify American products and

services that the Soviets want or Soviet products that Western consumers want. If your firm cannot provide or import and sell any of these, don't waste your time and money on a trip to the U.S.S.R.

- Once you are convinced a Soviet deal could be right for your firm, identify prospective partners by attending Soviet trade fairs, even though attendance usually costs \$5,000 or more.

The U.S. Department of Commerce's Soviet Export Counseling Service has information on these fairs; call (202) 377-4655. Also helpful in identifying partner candidates is the U.S.-based Amtorg Trading Corp., 750 Third Ave., New York, N.Y. 10017; (212) 972-1220.

- When in Moscow, visit the U.S. Commerce Department office, which can brief you on recent commercial developments, suggest specific markets, and provide meeting space and translating services as well as equipment for photocopying and sending telexes. Commerce also maintains a current list of U.S. trading companies that sell Soviet goods in the West. Commerce's address is 15 Ulitsa Chaykovskogo, Moscow, U.S.S.R. Or call 225-48-48.

- From your list of prospective partners, identify those who really are empowered to do business, and take time and great care in selecting among them.

- Do not hesitate to embrace creative marketing or contractual arrangements, such as involving a Canadian or other foreign business person with years of business experience in the U.S.S.R. When negotiating, send the highest-level executive possible. Some firms send recently retired high-level executives who have the time required to finalize Soviet deals.

- Work out all contractual details, even the smallest, before the joint venture begins operation. If you cannot bargain for payment in hard currency, be willing to accept an arrangement that calls for profits to be plowed back into the Soviet venture for a substantial period.

For firms interested in importing Soviet goods and selling them in the U.S., Alvin Duskin, president of Bering Co., a San Francisco firm involved in several successful Soviet importing ventures, makes this suggestion: "I advise anyone getting started [in Soviet importing] to approach the producers of useful products directly. . . . With them you can make a deal exactly as you would anywhere else."

On the other hand, Duskin says, "the worst thing a company [interested in establishing a trade relationship in the Soviet Union] can do is to go to Moscow and start talking to ministries. Americans spend millions each year and make contacts at the highest governmental level, [and] nothing happens. They have wonderful conversations, good lunches, and get driven around Moscow in limos, but this type of business the Soviets consider another form of tourism."

INTERNATIONAL TRADE

market for imported Soviet products.

Bering Co., a mid-sized firm in San Francisco that provides electric-generation equipment to hydroelectric plants, tapped this market in an unusual way. Bering offered three Soviet manufacturers of high-quality generators and turbines 49 percent ownership of the American company. Under the resulting joint venture, Bering has a vastly expanded line of products and services it can offer U.S. customers, and the Soviet partners—Electrosila and Encrogomashexport of Moscow and Leningrad Metalworks—have vast new foreign sales opportunities.

The arrangement is working well. "We are ahead of the goals we set," says Alvin Duskin, Bering's president. "We have bookings for about \$35 million in power equipment now, and we thought we would have only around \$6 million."

The success of this venture prompted Duskin to open an importing company and a consulting business for other firms seeking Soviet import ties. These ventures also are succeeding, says Duskin, who has found a Leningrad foundry to produce shipping containers for a San Francisco company and who is on his way toward importing \$150 million worth of Soviet machine tools and agricultural commodities over three to four years.

Not all companies have been as successful in Soviet ventures as Better Than Money, Microdynamics, AlphaGraphics, and Bering. The hurricane-force winds of economic and social change in the Soviet Union can blow in the faces as well as at the backs of foreign firms of all sizes seeking to do business there.

Rubin Salant, owner of S&H Development of Seattle, has signed agreements under which he is to build tourist hotels in Tashkent and the Georgia Republic. But political unrest in those areas has put the projects on hold.

Salant also hopes to develop a 520-room hotel and cultural center in Leningrad, but recent changes in the city government have stalled key negotiations. Communist Party bureaucrats who signed contracts with S&H a year ago have been tossed out of office, and Salant has been unable to meet with the Social Democrats now empowered to approve his joint venture, which actually is a business agreement with the city as a partner.

A more fearsome business nightmare is reported by Irwin Gaffin, co-owner with his wife, Margery, of AmeriBag. Last year this fledgling Kingston, N.Y., firm paid a trade representative about \$6,000 to display its luggage alongside the goods of about 20 other clients at a

large Moscow trade show. The idea was that each of the representative's small clients would get exposure they never could have afforded otherwise in Moscow, where exhibition space can cost tens of thousands of dollars.

The representative was to obtain orders, receive down payments on them in the form of Soviet goods, barter the goods for hard currency, and finally forward the money to his clients. The representative told Gaffin it could take up to six months to convert the Soviet goods into cash, but that the Soviets would demand their orders be filled within 60 days of the conversion date.

The representative returned after the Moscow show with orders for 135,000 bags worth about \$10 million. Gaffin was amazed. Domestic business was slow, and Soviet orders of that magni-



PHOTO: T. MICHAEL KEJA

John Tschohl did not let his firm's small size deter him from pursuing business in the Soviet Union. His revenues more than doubled.

tude would ensure AmeriBag's financial security.

Still, Gaffin faced a dilemma: There was no way his small operation could produce that number of bags within two months of receiving the down payment. His choices were to expand the otherwise sluggish business or to forfeit the Soviet trade. Gaffin decided to take a chance; he expanded his manufacturing facility on the strength of the Soviet orders, which the representative assured him were bona fide. He secured financing for the expansion from a Small Business Administration loan.

It took one year before things really began to move for the Gaffins. Their

representative spent months obtaining the appropriate signatures from five Soviet ministries. "It took one day to get the orders, and four months to have them approved," Gaffin says.

It took more time to line up European banks to handle the bartering arrangements to pay AmeriBag and the other 19 American clients. The Soviets will use metals and ores on their end, and AmeriBag will receive either direct payment from the bank group or guarantees for domestic financing.

Gaffin says that "even though our situation is working out, ... business persons should expect to go very slow. [The Soviets] don't know how to market their products or themselves. And this is where we can help."

The U.S. and Soviet governments are enthusiastically promoting joint ventures among their nations' small and mid-sized firms. One recent initiative was to expand the number of bilateral trade missions, make available more information on the consumer sectors of each country, and appoint a coordinator to link Soviet and U.S. business partners.

Planned seminars will explain to business people and lawyers how to undertake joint ventures. A model joint-venture program linking a U.S. state with a Soviet oblast, or region, is being perfected. The program is based on the cooperative economic-development efforts of the Soviet Stavropol region and the state of Iowa, which actively began in 1988. And the U.S. Census Bureau is preparing a U.S.-U.S.S.R. statistical handbook, which should be ready for distribution in early 1991.

Also, the Soviets sent a delegation to the U.S. in February to study how all levels of American government assist small U.S. firms. As a result of that visit, the Soviets are crafting legislation to create a ministry modeled after our Small Business Administration. Edward D. Murnane, SBA's coordinator of Eastern European activities at the time, who hosted the Soviet delegation, explains his agency's motivation: "We believe that by helping [the Soviets] turn their economy around ... [we will be helping] American small business in particular to enter into trade relations with the U.S.S.R. and other Eastern European countries."

Although joint government efforts may yield positive results for the Soviet economy, at least some U.S. business people think the Soviets might best be helped if both governments were to move aside. Says Ray Cotten of Microdynamics: "The American businessman probably can have a greater impact on the economic future of [the U.S.S.R.] than all the politicians in the world." ■

MANAGING

When You Employ Reservists

Employers have legal responsibilities to reservists, but business also benefits from the citizen-soldier approach to defense.

What are an employer's responsibilities to employees who are military reservists called to full-time active duty?

That question has arisen for some U.S. employers in the wake of President Bush's call-up of more than 46,000 citizen-soldiers in the Middle East crisis, the first such mobilization in 22 years.

The president has authority to call up 200,000 reservists without congressional approval, and the number of companies affected could grow.

The basic rule on job rights of those called to duty appears in a federal law stating that they can return to their former jobs "without loss of status." Key guarantees are for re-employment without loss of seniority.

But it's not a one-way street for companies, says Maj. Gen. William F. Ward, Chief of the U.S. Army Reserve. He explains that American business benefits from the military-reserve system in ways that go beyond direct national-security considerations.

One such aspect is fiscal. The cost of maintaining a reservist is one-fourth to one-third that for a full-time, active-duty soldier, Ward says, and reliance on part-time soldiers holds down the overall military budget.

Ward also says the training and experience received through reserve duty makes individuals "better employees, better supervisors, and better managers."

Ward, who holds degrees from the U.S. Military Academy and the Harvard Graduate School of Business, says his observations are based on his long experience on active military duty, in the reserve forces, and as a top executive of small and large companies in the private sector.

Reservists, he says, "are people dedicated enough to serve their nation and ready enough to be called."

The reserve chief also notes that some employers voluntarily—without being legally required to do so—are making up the difference between reservists' military pay and what they



PHOTO: ©ARMY TIMES

Army reservists training in Colorado.

would have received for their civilian jobs.

The U.S. Labor Department holds principal responsibility for enforcing laws on employment rights of those called. Secretary Elizabeth Dole says:

"When our military reservists are called upon to leave their jobs and assume potentially dangerous responsibilities in the Persian Gulf, the least of their concerns should be whether their jobs will be waiting when they return."

She urges employers to "do everything possible in easing the transition of the reservists they employ to military service and back to the office again."

The Labor Department says that employers should be aware of these provisions regarding employees called to active military duty:

- They are not required to request a leave of absence or even to notify employers that military service is the reason for leaving.

- A returning employee has the right to return to the pre-service or equivalent position.

- The man or woman returning from active duty returns to the seniority ladder at the point that would have been reached in the absence of military service, not at the point of departure.

- Active-duty time must be counted in determining service for pension vesting and benefits, and employers must continue pension-fund contributions based on length of service.

- Returning reservists are entitled to any promotions, wage increases, or other job improvements that they would have received if they had stayed at work. They also retain full vacation rights.

The status of reservists' health insurance comes under a general law that requires employers of 20 or more workers to permit those who leave the company to continue coverage by paying the full cost of group insurance.

The Internal Revenue Service said it was aware that "many employers will voluntarily maintain full coverage under their group health plans for reservists and their families."

The law provides for terminating coverage if the individual comes under another plan. But IRS notes that access to military medical care does not alter the option under the employer plan.

Basically, the overall laws on job protection are designed to permit reservists to fulfill their military obligations "without loss of status" in their civilian employment.

In addition, a 1940 law sets a ceiling of 6 percent on mortgage interest paid by active-duty military personnel. Rates were about 4 percent when the law was passed.

Neither lenders nor borrowers are required to notify the other officially of a reduction in payments to meet the 6 percent limit.

For More Information

Employers with questions on their responsibilities to employees called to active duty can contact these sources:

- The Veterans Employment and Training Service. Look for the regional office number under "U.S. Labor Department" in your local phone book. The national office number, in Washington, is (202) 523-8611.

- The National Committee for Employer Support of the Guard and Reserve, an agency of the Department of Defense. The phone number in Washington is (202) 653-1897. The toll-free number for calls from outside Washington is 1-800-336-4590. **NE**

Redrawing The Battle Lines

By David Warner

California's 27th Congressional District sent a strong conservative to Washington for many years prior to 1982. In preparation for that year's elections, however, the state redrew boundaries of the 27th and all other districts to accommodate two additional House seats, reflecting population growth shown in the 1980 census.

The new lines, crafted by the liberal

spoken Dornan said. "I think it's unethical, unfair, ungentlemanly, rotten, craven, slimy."

On a statewide basis, Democrats in California's U.S. House delegation increased from 22 to 28 in the 1982 elections as a result of the newly drawn district lines, while the GOP contingent fell from 21 to 17.

The Democrats' ability to turn congressional redistricting into a major po-

Business people must make sure that congressional redistricting doesn't work against them.

merce: "The 1991 redistricting will set the political landscape for the next 10 years, and, through that, the business community will be dealt its hand as far as the philosophy of the members of Congress. That philosophy will either be pro-business or pro-labor."

To ensure that it is fairly represented in Congress, business must become involved in the redistricting process, Maness says. The first step in influencing that process, he says, is electing pro-business candidates for state offices in the Nov. 6 elections. More than 6,200 legislative seats in 46 states will be at stake, along with 36 governorships.

Legislators in 45 states, often with considerable help from the very representatives whose seats are involved, have the task of drawing new congressional district lines. Five states—Hawaii, Iowa, Maine, Montana, and Washington—have commissions for congressional redistricting, although the legislatures in Iowa, Maine, and Washington must approve the commissions' plans. The governors in all states except North Carolina may veto redistricting plans.

The party that controls the three branches of state government—senate, house, and governorship—controls redistricting. Where political control is split, redistricting will be subject to conflict, compromise, and, in some cases, resolution by the courts.

In 15 states, Democrats hold the governor's office and control the legislature, compared with four states where Republicans command to the same extent. (See the map on the next page.) Political power is divided in the 31 other states. In California, for example, Democrats dominate both houses of the legislature, but the governor is Republican. New York has a Democratic governor, and his party controls one branch of the legislature, but Republicans run the other.

Some political analysts believe that in states where neither party controls the two legislative chambers as well as the governorship, the Democrats are in a better strategic position than the Republicans to capture the third center of political power.

In nine states where they now hold the governorship, the Democrats could



PHOTO © PAUL GERO

Gerrymandering his former district was cowardly, says Rep. Robert Dornan.

Democrats then running the state, quickly achieved notoriety as one of the most blatant examples of partisan redistricting in U.S. political history.

The new configuration of the coastal district south of Los Angeles brought in enough Democratic voters to persuade three-term Republican Rep. Robert K. Dornan not to run for a fourth time in the 27th. (In 1984, he ran for and won the 38th District.)

That political shift spotlights the potential impact of redistricting on business. A U.S. Chamber of Commerce analysis of federal lawmakers' support for business's positions shows Dornan at 86 percent and his successor at 30 percent. "What the Democrats have done [with redistricting] is a cowardly attempt to hold on to power," the out-

political coup in California rested on their control of the state legislature and the governor's office. Redrafting congressional district boundaries is implemented through state legislation.

The 435 U.S. House seats are distributed by population, with each state guaranteed to have at least one representative. (The current number of House seats was set by Congress in 1911. The House has since chosen to remain at 435 seats rather than add seats to reflect population growth.)

How each state's allotment of House seats is subdivided—by redrawing lines of congressional districts in each state—will be a factor in determining the character of the House in the 1990s.

Says Ted Maness, director of political affairs for the U.S. Chamber of Com-

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gain command of the remapping process through a shift to the Democratic column of altogether just 21 state senate seats and three house seats—provided they lose none of the governorships. Democrats also could grab the redistricting process in 12 other states—where they have majorities in the legislatures—by taking governorships from Republicans.

The GOP could gain control of redistricting in four states by capturing governorships now held by Democrats. The Republicans could take control in two other states by winning three senate seats in one and three house seats in the other.

Particular attention will be paid to elections in the 21 states that are expected to gain or lose U.S. House seats after reapportionment. According to preliminary Census Bureau figures, those seats will move from the Northeast and Midwest to the South and Southwest because of population changes.

This movement of seats from the industrialized northern states, where organized labor was traditionally a major

political force, to the conservative South and Southwest has been under way for many years. But business cannot assume that trend will automatically lead to pro-business policies, the experts say. Involvement in the redistricting process is also crucial.

Robert LaBrant, vice president for political affairs and general counsel for

the Michigan State Chamber of Commerce, says that "business needs to take advantage of the opportunity in 1990 [elections] to make sure that the redistricting process is an open process in the '91 legislative sessions across the United States."

The history of redistricting, however, shows the process has been anything but open. Actually, the tactic of using the redistricting power to enhance partisan advantage goes back nearly two centuries. In 1812, Massachusetts Gov. Elbridge Gerry designed a district to favor his party's candidate—a district whose shape, some observers said, resembled a salamander. One political pundit dubbed it a "gerrymander," a term now part of the political lexicon.

California's 27th District, redrawn in 1981, is described in a Republican National Committee publication as looking like "a python digesting a shovel and a buzzard." Nationwide after the 1981 remapping, Democrats gained 25 House seats in the 1982 general election and 1983 special elections. That increased their margin over House Republicans to 268-167 from 243-192. The House makeup is now 257 Democrats and 176 Republicans; two seats are vacant.

Although business is being urged to help elect pro-enterprise officials to influence line-drawing decisions, its goals should also include the development of a fairer and more rational system of redistricting. California's Dornan suggests a nonpartisan panel of retired judges in each state be given the job.

The Republican National Committee agrees that the process needs to be more equitable. Says David Winston, director of the strategic information division of the RNC: "We want to depoliticize the redistricting process and come up with standards that everyone would have to meet in drawing plans."

Projected Shifts Of House Seats

(Effective with 1992 election)



The first number shows expected gain or loss in seats as a result of 1990 census. Further changes are possible when official reapportionment process is completed. Numbers in parentheses compare the size of the state's delegation in 1992 with the anticipated new total.

Source for 1992 projections: Election Data Services, Inc.

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Now, redistricting plans must satisfy only two criteria: Districts must be as nearly as possible equal in population, and plans must comply with the Voting Rights Act, which calls for the creation of minority districts where possible.

"What we're looking for are [additional] nonpartisan standards that limit the ability of a district builder to implement a political plan," says Winston. He suggests that other criteria include making districts compact, respecting "communities of interest," and preserving existing political subdivisions.

President Bush has proposed nonpartisan redistricting rules as part of a measure he introduced earlier this year on campaign-finance reform. "We must draw district lines that respect the needs of the people, not the political needs of either party," Bush says.

"If [business] can make it a fair redistricting process, take politics out of it. Republicans would benefit and business would benefit also," says the Chamber's Maness, who points out that House Republicans vote with business more than Democrats do by a margin of more than 2 to 1.

But the Democrats view the Republicans' call for nonpartisan redistricting as a "red herring," according to Mark Bohannon, director of election analysis and planning for the Democratic National Committee. "The Republicans would like you to believe that redistricting can be a nonpartisan process. ... that if there were fair redistricting, they would be in power." The Democrats have held the majority in the House for 56 of the past 60 years not because of redistricting, he says, but because of issues and candidates.

Nevertheless, the Democratic National Committee and organized labor are pumping thousands of dollars into "Project 500," which is designed to help the Democrats win or retain key state legislative seats in states expected to have significant redistricting activity. And Democrats in California, which is expected to gain six or seven House seats following reapportionment, spent nearly \$6 million to defeat two 1990 ballot initiatives that would have limited the legislature's ability to adopt a gerrymandered redistricting plan.

Business people concerned about equitable redistricting may thus have to look beyond the 1990 elections and become directly involved in the line-drawing process, Maness says.

While it is not widely known, anyone may submit a redistricting plan to a state legislature or redistricting commission. And business will find it much easier in this technological era to enter the map-making game. Inexpensive yet

*Business needs to ...
make sure that the
redistricting process is an
open process in the '91
legislative sessions across
the United States."*

—Robert LaBrant, Michigan State
Chamber of Commerce

sophisticated personal computers and new software allow almost everyone, even nonpoliticians, to draw maps literally with the push of a button.

Says the RNC's Winston: "A PC on somebody's desk is almost as powerful as a lot of mainframes [used for map making] that existed back in '81. There's also going to be an increase in the ability of people to participate in the [redistricting] process and not have to go out and spend a million dollars to get involved but spend \$50,000 to become a player."

The DNC's Bohannon says, "Technol-

ogy will allow more people to participate, whether minority groups, women's groups, business."

The Republicans, through a group called Lawyers for the Republic and its "Fairness For The '90s" project, are making available to any organization, upon request, the software and database to draw district maps. (For more information, contact "Fairness For The '90s," 1155 Connecticut Ave., N.W., Suite 601, Washington, D.C. 20036; 202-408-1991.)

"If [redistricting] is how the legislatures are going to be defined for the decade, we'd better have input from the voting public. That did not occur in the '81 process," says Winston.

Business people, says the Michigan chamber's LaBrant, in addition to voting for pro-business lawmakers in 1990 and submitting their own redistricting plans to legislative map makers, should attend legislative hearings on redistricting and should question the remapping done by politicians. Plans in any state also may be challenged in court.

Says LaBrant: "Business will benefit from a fair redistricting process where no political party can gerrymander the results of either congressional or state legislative elections for that decade." **NB**

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LESSONS OF LEADERSHIP

The Sibling Rivals

By Michael Barrier

Stanley Katz owns Archer Services, one of the two biggest messenger companies in New York City, and probably the country. The other big company, Choice Courier, is owned by another man named Katz—Edward M. Katz.

Nothing terribly unusual about that; there are lots of Katzes in the New York phone book. What is a little odd is that the two competitors are brothers.

Stanley helped Ed get started in business, 27 years ago, by giving him office space for six months and making deliveries for him until Choice Courier could stand on its own feet. That, too, might sound a little odd—even when brothers are involved, it's not exactly common for a successful company to help a competing firm enter its market. But in a way, what Stanley did was only fair; a few years earlier, it was Ed who helped Stanley get started.

As Ed Katz says, "It's very strange."

Today, the Katzes say, their companies compete vigorously. Says Stanley Katz: "On the weekends, if we're together socially, we're brothers, but during the week, we are very strong competitors." Says Ed Katz: "More often than not, we're bidding on the same large accounts, and we never even compare notes." Even so, the brothers speak on the phone at least once a week, and they get together once a month or so; their offices are just a few blocks apart in midtown Manhattan.

Each Katz owns 100 percent of his company, and both speak vaguely about just how big their companies are. "I don't know what his books look like," Ed Katz says. "I claim I'm the biggest in the U.S., and I think he does,

What do you do when your messenger company's strongest competitor is your own brother? If you're Stanley Katz, you do very well.

too." Each company has revenues somewhere near \$40 million, and each has more than 2,000 employees.

Now both companies are moving away from traditional on-demand messenger service, in ways that may leave the brothers more successful than ever but competing much less than before.

For all the similarities of their success stories, it would be fair to say that Stanley Katz has usually been a half-step ahead of his older brother. He got into the messenger business first, and he will probably be the first to leave it.

Stanley Katz was born in Queens in 1934, 21 months after Ed. After graduating from Adelphi College, he says, "I must have had about 70 jobs" before he went into business for himself, in 1959. Ed already had two employment agencies of his own by then, and, Stanley says, "I didn't want to compete with him, so I decided to go into a tempo-

Katz's firm manages mail rooms.



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LESSONS OF LEADERSHIP

rary-employment service." Ed persuaded him to start a messenger service instead. Ed was a silent partner at first but bowed out of the business after a few months.

Stanley Katz started Archer Messenger Service (he took the Archer name from one of Ed's employment agencies) with himself and two messengers, working out of a two-room office in Manhattan. As soon as the first call came in, Katz recalls, he hired another messenger. The reason: Katz was "on the outside," making sales calls; one messenger was staffing the telephone; and the other was making deliveries. If a call came in while that messenger was gone, a pickup couldn't be made right away—and as far as Katz was concerned, "I was out of business."

Before he started Archer, Katz says, "I kind of checked my competition, and

ly very simple, but there was a need for it. That was an innovation, and a lot of the other services had to try to match what we were offering."

While Archer was growing, Ed Katz went through boom and bust. He took one of his employment agencies public, and after selling his stock he lost all his money in poor investments. "I went broke," he says. "I mean really broke. I went from what I thought was enough money to last me the rest of my life to a negative net worth. It was really the best thing that happened to me, going broke; it makes you wake up."

With a partner, Ed started Choice in 1963. "Stanley let me use his office for probably six months," he recalls. "He did all of my work. All we did was go out and sell, for about six months, then we moved out to a small office. We started with a handful of messengers

"Stanley, would you take me out of this mail room? It's too much of a distraction." We were picking up packages that were going outside, so he said to me, 'You have to know more about this mail room than I do.'" Katz had industrial engineers analyze the firm's work flows and suggest changes. Then the law firm's administrator said to Katz: "Why don't you take over the whole thing?"

That was the birth of Archer Management Services, now the heart of the company. Today, hundreds of Archer employees staff mail rooms for banks, law firms, and such corporations as CBS Records and General Electric. From running mail rooms, Archer has expanded into other support services: copy centers, fax units, supply rooms. (Archer provides some customers with messengers based on the customers'



PHOTO: ©ALAN DORR

I realized that the service levels the clients wanted were not being offered. I wanted to always have [a messenger] ready. That really has been our strategy for 30 years, to offer a superior service, to communicate with the client and understand what the needs are."

That attention to his clients' needs led him to offer a service that he thinks was key to Archer's growth.

When he started Archer, Katz says, competing messenger firms offered a "consolidated service": Packages were picked up from many locations, brought to a central site, and distributed throughout the city. Customers seemed to accept that procedure as a given, but Katz asked them, "What do you really want?" Their reply: If a messenger picked up a package and took it directly to the addressee, "that would make them very happy. So we introduced a new service called direct delivery. Real-

and one vehicle." His wife answered Choice's phone, and his partner dispatched messengers while Ed looked for customers; at night, Ed worked as a bartender. "It's a nice success story," he says, "but it was very difficult."

In the '60s and '70s, both companies prospered by being sensitive to their customers' needs. In 1968, for example, Archer began offering same-day delivery of documents from New York to Washington, because, Stanley Katz says, "we were servicing the legal industry, and they had great needs for getting items to the government agencies. We were the first courier on the Eastern Shuttle." Archer opened an office in Washington, followed by branches in Boston, Chicago, Los Angeles, and now Houston.

Archer took a decisive turn in 1981, Katz says: "The administrator of a very progressive law firm called and said:



Katz confers with Archer managers, left; with Operations Manager Michael Buckenberger at CBS Records' mail room, top; and with brother Ed, of Choice Courier.

premises rather than in Archer's offices.) Recently, Katz says, "some folks have asked us to look at child-care management."

The whole idea behind facilities management, Katz says, is that "companies should be able to concentrate on their core business—the areas that are producing revenues for them—and farm out the distractions, the entire support area." Archer can bring to those "distractions" a money-saving expertise, and it can offer to its employees a career path that leads up from what would otherwise be dead-end jobs.

Choice Courier has followed Archer

into facilities management, with success, although Ed Katz acknowledges that his brother entered the field "many years before we did." Choice's biggest push is coming in another area, through a service called Twilight Express; it makes next-day deliveries, as opposed to the same-day deliveries that have been messenger services' forte. For a year, Twilight Express' network of motor couriers has challenged Federal Express in the Northeast, promising to deliver packages just as quickly but at half the price. Ed Katz thinks Twilight Express can become a \$100 million business—big enough to be highly profitable, but not big enough to invite Federal Express' retaliation: "They'll know we're there, but we're not going to affect their operation."

Stanley Katz, on the other hand, plans to get out of the on-demand delivery business altogether.

In the late '80s, messenger services were hit hard by the explosive growth of facsimile transmission. New York City, once swarming with messengers carrying papers between banks and law firms, saw the number of messenger firms fall from 350 to 225 in three years. Couriers will always be needed for some jobs—you still can't fax a computer part or a negotiable instrument—and Stanley Katz thought at first that Archer could take up the slack by buying other messenger firms. "But we found that as we were buying them, the business continued to erode. We couldn't buy them fast enough."

Although Archer's revenues from facilities management have been growing 15 to 20 percent a year, Katz says, there has been no comparable growth on the messenger side. Now he talks of getting rid of "the ground operation" in three to five years. Archer's only messengers would be those provided to other firms under facilities-management contracts. "Our focus," Katz says, "is really to go 100 percent management."

So it's easy to imagine, a few years down the road, that Archer will be a facilities-management company, whereas Choice will be devoted largely to Twilight Express and other specialized delivery services. The brothers will no longer compete as directly as they once did. But in one respect, their companies will no doubt remain very similar.

Stanley Katz could be speaking for both brothers when he says: "You don't have to be a genius to promote a good service. Clients are very anxious to tell you what they need—and if you can help them in one area, they assume you can help them in a second area. If you're able to act on a good idea quickly, there are a lot of opportunities out there." ■

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INTERNATIONAL TRADE

Selling American To The Japanese

U.S.-based Amway Corp. has used its special marketing strategy to become the fastest-growing foreign company in Japan.

Many barriers confront manufacturers who are eager to sell their wares to Japan's affluent consumers. Among the most unyielding of the obstacles is the nation's multilevel distribution network.

Within that network, a number of import agents, wholesalers, and retailers routinely add their own price markups to others preceding them, resulting in typically mind-boggling price tags for imported goods.

But one American manufacturer, Amway Corp., has become the fastest-growing of more than 3,000 foreign businesses in Japan through its unconventional solution to the distribution problem: The company has forged a dockside-to-consumer distribution chain of its own.

An Opportunity To Expand Sales

Just over 10 years ago, Amway, based in Ada, Mich., decided that Japan presented a tremendous opportunity for expanding sales of the company's cleaning and other household products, toiletries, nutritional supplements, and housewares.

Peter Scacco, Amway's director of international public relations, says the company made this evaluation in part because its goods are sold by "the human method: friends talking with friends." This direct-sales method, he says, enables Amway to maintain control over distribution and pricing of products sold in Japan.

The company questioned at the time whether Amway products would appeal to Japanese consumers and whether the Japanese would be interested in selling them. The answer to each question has been a resounding yes.

Amway (Japan) Ltd. began operation in 1980 with about a dozen corporate staff members, who recruited about 250 distributors, as Amway calls its sales people.

Amway (Japan) employment posted spectacular gains throughout the 1980s, and it now has a staff of about 450 and more than 500,000 distributors, many of whom work part time. About 60 percent are women.

The husbands of successful women distributors often get involved later, Scacco says, "but we have a lot of sin-

gle [male and female] distributors, too."

Scacco says working for Amway is popular in Japan for several reasons. One is money: High-producing distributors can earn \$100,000 or more a year in commissions, bonuses and trips.

Another reason is sociological. During the past decade, many Japanese workers have been asking themselves if being a salaried employee is what they really want to do during their working years. "Amway taps the sense of entrepreneurship within those workers," Scacco explains. "It represents a way to make money in direct relation to the amount of work done."

But unconventional distribution methods and an industrious sales force are not the only ingredients in Amway's Japanese success formula.

About 80 percent of the approximately 150 items now sold in Japan by Amway distributors are made in the U.S., but many are tailored exclusively to appeal to Japanese tastes. For example, Amway reformulated the Artistry line of cosmetics it sells in the U.S. for sale in Japan as Artistry II.

And then there is the matter of delivery. Amway (Japan) maintains distribution centers in Tokyo, the southern city of Fukuoka, and the port city of Kobe. These centers are highly automated and even include customs facilities on site. Consequently, the time between order placement and delivery is only two to three days, and Amway's goal is to reduce it to under 24 hours.

Sales Growth Is Unsurpassed

This overall formula has produced sales growth unsurpassed by other foreign companies in Japan, according to data of the Ministry of International Trade and Industry. In each of the 10 years it has operated in Japan, Amway has recorded double-digit rates of increase in sales. Scacco says year-to-date sales for Amway (Japan) are up about 15 percent, and there is "no sign of problems on the horizon."

During Scacco's three years in Japan, he says, he has learned that "it doesn't happen overnight here. You have to make a long-term commitment to this market and have the patience to watch it blossom."

—Albert G. Holzinger

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A "Blue Chip" Plan To Help Small Firms Grow

By Michael Barrier

More than 30 years ago, when Denis F. Mullane was starting his career with the Connecticut Mutual Life Insurance Co., he spent a lot of his time calling on small businesses in the Garden City, N.Y., area. Like most Connecticut Mutual agents, he recalls, "I focused on a particular subset of small businesses. I had, at one point, more than 50 clients who were in the fuel-oil business." Eventually, Mullane says, "I began to know the fuel-oil business as well as I knew the insurance business."

Again and again, he heard clients talk about practical problems and how they were dealing with them. As he listened, Mullane realized that what he was hearing could be of help to other clients who faced the same problems. He became a conduit through which small businesses shared information on nonproprietary matters of mutual concern.

Mullane became president of Hartford-based Connecticut Mutual, one of the nation's oldest life-insurance companies, in 1976 and chief executive officer in 1983. Now he wants Connecticut Mutual as a whole to play the role that he and other agents have played individually over the years: helping small businesses thrive through the exchange of information.

In collaboration with the U.S. Chamber of Commerce, which publishes *Nation's Business*, Connecticut Mutual is launching an annual awards program to identify and recognize small businesses that have met today's challenges. Adopting a universally recognized synonym for quality, Connecticut Mutual has named its program the Blue Chip Enterprise Initiative.

In addition to singling out "Blue Chip companies," the program will spread the word about how they have achieved success, so that other small firms can learn from their example.

The U.S. Chamber is encouraging state and local chambers of commerce to participate actively in the search for Blue Chip companies. Chamber President Richard L. Leshner notes that "industry leaders and legislators have united in a cry for a national initiative that will surface and share real-world examples of competitive solutions with businesses across the country." The



PHOTO: ©MICHAEL BLANDER—THE HARTFORD COURANT

Denis F. Mullane of Connecticut Mutual had a key leadership role in the creation of the Blue Chip program to recognize outstanding small businesses.

Blue Chip Enterprise Initiative, he says, is just such a program.

"Small business is the backbone of America and of chambers nationwide," Leshner says. "Because their small size gives them the freedom and flexibility to innovate, small businesses are often the source of our most original ideas. We believe it's small business that holds the key to America's ability to compete in the increasingly tough marketplace."

Mullane, who is also chairman of the

Greater Hartford Chamber of Commerce, expects the program to raise small businesses' awareness of problems that many of them don't even recognize as such: "People will say, 'Here's a problem that we solved,' and other people may have the problem and not even have defined it."

The program gets under way Oct. 1. Here are the details:

Eligibility: All small businesses that have been in continuous operation for three years or longer and have

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five to 300 employees will be eligible. It is not necessary to be a Connecticut Mutual customer or a member of the U.S. Chamber.

Obtaining Information: Material about the program will be distributed by participating local and state chambers of commerce and by Connecticut Mutual and its agents. Small businesses can apply directly to the program's administrators or can be nominated by a local chamber, for example, or an employee, supplier, or customer.

Application: The heart of the application must be a case history of how the company successfully met the challenges of its economic environment. For example, the application might describe how the firm dealt with the entry of a strong new competitor into its market, or compensated for sharp swings in the business cycle, or adapted to changes—such as a sudden drop in demand for its principal product—that would have sunk a less nimble firm.

The application should demonstrate just how the company marshaled its resources to accomplish its goals. Did the company reorganize the way its employees did their work? Did it adopt new marketing strategies? Did it find new ways to ensure the high quality of its products or to use technology effectively? Did it enlist community support? The application should describe such steps in convincing detail.

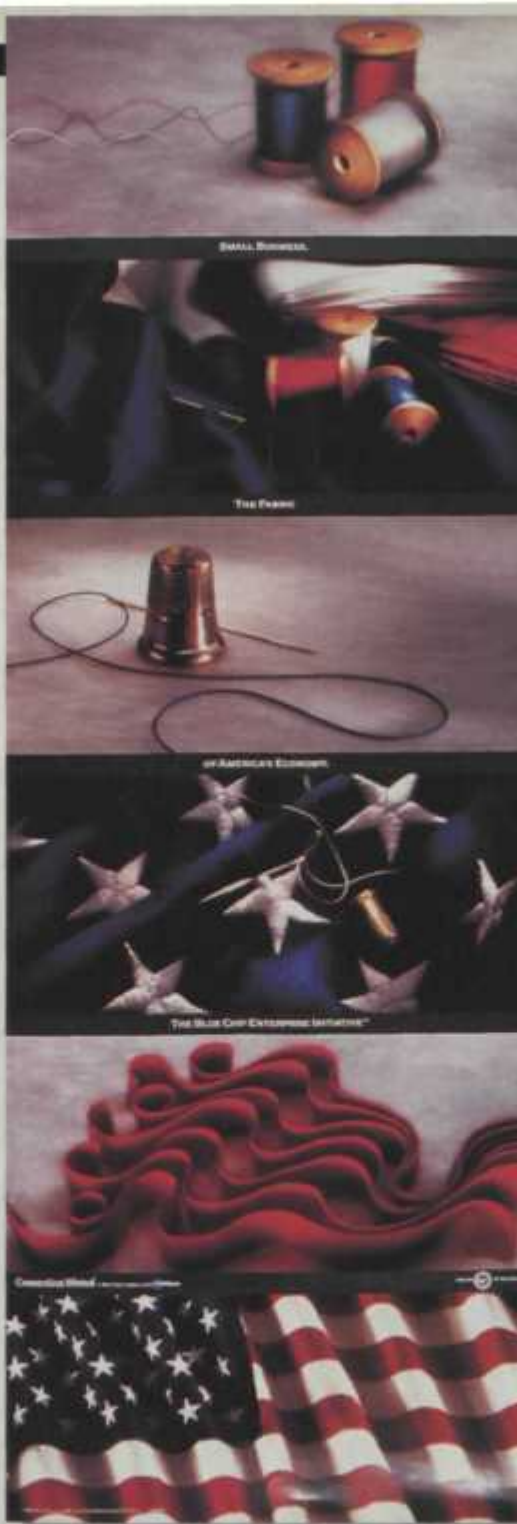
In each case, a principal of the nominated company must attest to the accuracy of the information.

Deadline: The deadline for nominations is Jan. 31, 1991. The nominations will be judged by a panel of small-business experts drawn from the academic world, small-business organizations, and the ranks of successful entrepreneurs themselves.

State Recognition: Up to four Blue Chip companies will be designated in each state and the District of Columbia. Each of these companies will be recognized in *Nation's Business* and will receive a trophy and a professionally designed Blue Chip emblem that can be used in its advertising and on its signs.

In addition, one company in each state and in Washington, D.C., will be featured on "Nation's Business Today," the U.S. Chamber's weekday morning news program on the ESPN cable network. A different business will be saluted every week.

National Recognition: In the next stage, three Blue Chip companies will receive an all-expenses-paid trip for two



A Blue Chip poster reflects on small business—the fabric of the economy.

to Washington, D.C., to appear at the U.S. Chamber's annual meeting next April.

The *Nation's Business Today* profiles will be edited to form a videotape library available to local and state chambers. In addition, printed materials offering useful tips will be distilled from the case histories submitted by all the nominees. The whole process will begin again in the fall of 1991.

While Connecticut Mutual's Mullane now heads a 144-year-old colossus with

more than \$70 billion in life insurance in force, he feels an empathy with small business that comes from having been a small businessman himself. After graduating from the U.S. Military Academy at West Point in 1952, he spent four years in the Army before becoming a Connecticut Mutual agent. "As an agent," he says, "I was a sole proprietor. I do understand some of the problems of establishing a sole proprietorship, including the fact that my business expenses, in my first year as an agent, were only \$40 less than my gross income."

Along the way, Mullane had the chance to observe how perilous the small-business life can be. "Early on in my career," he says, "I insured a small corporation against a loss of one of the three shareholders. It was in fact the youngest and healthiest of the three who met an untimely death." Thanks to the insurance money, "the surviving shareholders were able to buy out the family at the agreed-upon price."

Now, through the Blue Chip Enterprise Initiative, Mullane hopes to help many more small businesses in an equally significant way.

The Blue Chip program originated, he says, because small businesses are one of Connecticut Mutual's prime markets, and the company was "trying to think of a way to more fully support the people in that market." He considered other possibilities, "but this one seemed to pop off the page. It started out as a concept and developed as we went along. As each new party became involved in the process, they became enthusiastic about it and began to add ideas, and slowly we built to where we are."

As Mullane readily acknowledges, the Blue Chip Enterprise Initiative will raise awareness of the company among potential customers. But, he says, "any public-relations marketing that you do has got to be legitimate. If in fact it doesn't add value to the group that you're aiming the program at, I think it very quickly gets unmasked."

The Blue Chip program will suffer no such fate, he says: "It really is on target. Focusing on the importance of small business will give not only the Blue Chip enterprises but the whole subject greater national visibility. The sharing of ideas among small businesses is a way that we can make a direct contribution to the success of the people we would like to have as our customers." ■

Family Business

Teaching children the joys of work, financing growth while keeping control, and learning from the second generation.

COMMENTARY

Never Too Young For The Joy of Work

By Sharon Nelton

Every time I was out working in my garden this year, Sarah, my neighbors' 5-year-old daughter, appeared as if by magic at my side. "Can I help you?" she would ask. "What can I do?"

Sometimes I put her to work picking up twigs and putting them into a trash bag, or moving small rocks. Usually, for me, it meant taking more time to do a job than if I had been able to do it by myself. But Sarah was invariably disappointed if I didn't have any tasks for her to do and thrilled when there was some contribution she could make.

When we talk about teaching children the joy and value of work in a family business, I think about the grin that Sarah gets on her face when she's helping.

According to a new study by BDO Seidman, a national accounting and consulting firm, 75

percent of business owners want their children to come into the business, and family-business experts have said for years that the best time to get children interested is when they're young. This means, among other things, communicating to your child the pleasure that you yourself take in your business and your work.

A decade ago, in his book *Inside the Family Business*, consultant Léon A. Danco wrote about how the typical business founder looked to his children: "They see him collapse into his chair at night and fall asleep watching TV, still in his working clothes. They see him gaining weight or losing weight, but surely getting out of shape, looking harried and harassed. They see very little, if anything, of his joy in his work."

"Yet, if you asked him, he would tell you he was setting an example for his kids, that he's instilling in them respect

for the work ethic and the understanding that only hard work can make what you want to come true."

Under such circumstances, Danco contends, "it becomes almost impossible for these potential successors to see anything attractive about joining their father's business."

If your children are to grow up wanting to accept your responsibility as a business owner, you need to share with them your own love of it. And it's never too early to start.



Nelton: "Most children find fun in work."

J. Willard Marriott Jr. and Thomas B. Watson Jr. were still youngsters when their fathers first took them on business trips. Stew Leonard Jr. of Stew Leonard's, the renowned supermarket in Norwalk, Conn., recalls the excitement he felt when, at age 10 or so, he and his younger brother,

Tom, were picked up by the truck drivers from the family dairy to help deliver milk to people's homes in the pitch-black early morning.

The son of a cheesemaker remembers being only 8 or 9 and doing some of the dirty work that goes into making cheese. It was real work, not busy work, and it made him feel worthwhile.

It's said that play is a child's job, because it is a necessary part of a child's development. But most children, like my neighbor Sarah, also find fun in work—fun that can extend to a lifetime of responsibility. For Sarah, it's the fun of feeling that she is making a contribution and the thrill of recognition for a job well done.

I never give her just make-work. When she helps me, it's real work she's doing, and her little face reflects the sense of self-worth that comes when what you do is of value to someone else.

PLANNING

Growing Without Losing Control

By Craig E. Aronoff and John L. Ward

The family was a pillar of the community, acclaimed for its leadership and generosity. As managers, its members were admired by their business peers for their company's growth and their ability to recognize and capitalize on new opportunities. As employers, they engendered loyalty and respect. All outside the family watched expectantly as another seemingly worthy generation neared maturity.

And all were shocked one Monday morning when the newspaper headlined the story that this major family business was being sold to a larger, publicly traded competitor. While the family received congratulations for its good fortune, there was a shared sense of sadness within the family and without. Money was gained, but much was lost.

Even when they are growing and profitable, family-owned companies have a serious disadvantage. Stated simply, their financial resources are limited, but financial demands are great. Eventually entrepreneurs face an uncomfortable choice: limit business growth or see their family lose control of the business. Unfortunately, selling the business is the most likely result of needs for capital combined with family needs or desires for funds, and paying Uncle Sam what he considers his due.

Estate taxes can cost 25 percent to 50 percent of a business's value. Funds must be set aside for secure and comfortable retirement for older family members and to provide for dependent loved ones. Health problems, divorces, or other family misfortunes may consume vast resources. Past partners or inactive family shareholders add additional pressures.

As the worldwide economic change intensifies, demands for capital grow. Industries consolidate, making acquisitions more tempting. Competitors keep improving, pressuring margins and waging expensive war for market share. Technology and innovation require new investments or present more,

Mark Your Calendar

Oct. 2, Oshkosh, Wis.

"Building a Successful Family Business," a one-day seminar offered by the University of Wisconsin-Oshkosh. To be repeated Nov. 7. Contact UW-Oshkosh Business Development Center, Oshkosh, Wis. 54901; (414) 424-1453.

Oct. 25, Tukwila, Wash.

"Planning for Transition in a Family Business," a one-day conference featuring *Nation's Business* columnist John Ward and Pat Frishkoff, director of the Oregon State University Family Business Program. Contact Laurie Owen at the Seattle-King County Economic Development Council at (206) 386-5040.

Oct. 26-29, Miami-The Bahamas

"Advancing the Family Business," a seminar led by consultant F. Eugene McGrath aboard the Royal Caribbean cruise ship *Nordic Empress*. The program is sponsored by the Schenectady County Chamber of Commerce. Contact Richard Polk, Captain Cruise, Inc., 2040 Broadway, Schenectady, N.Y. 12306; (518) 374-3900.

Oct. 28-31, Santa Barbara, Calif.

"Planning for Continuity" and "Women in Family Business" are concurrent seminars offered by the Owner Managed Business Institute. Contact OMBI at 226 E. De La Guerra St., Santa Barbara, Calif. 93101; (805) 564-8380.

Nov. 8-10, Carlsbad, Calif.

"Your Family-Owned Business: How to Build It, Manage It, Make It Last," a conference sponsored by Laventhol & Horwath, American Express, and Shearson Lehman Brothers. Featured speaker is Peter Davis, director of family-business studies at the Wharton School of the University of Pennsylvania. Call Nancy Cohen at (800) 521-1818.

Nov. 15-17, Ojai, Calif.

"Family Relationships and Management Strategies," a seminar sponsored by the Institute for Family Business of Washington & Lee University. Speakers include Ivan Lansberg of Yale University and Barbara Hollander, a Pittsburgh-based consultant. Call (800) 445-9786.

usually expensive, opportunities.

Talented offspring increasingly recognize the value of joining the family business because opportunities abound. So what can a business owner do?

Some "go public," exchanging open books and government reporting requirements for access to capital. Others invite monied nonfamily partners. Each approach contains risks and threatens control.

We suggest three other approaches that permit financing growth while maintaining control: (1) find acceptable ways to limit business cash requirements; (2) find ways to lessen family demands for cash; or (3) explore creative approaches that generate additional funds but don't cost control. We'll examine the first in this column and discuss the other two next month.



ILLUSTRATION: JIM STARR

Limiting The Demand For Capital

A few private companies are lucky. They are in businesses that need little money to grow or compete—where competition is weak, or margins are strong, asset requirements are modest, or suppliers readily extend credit.

Others consciously seek to develop businesses with these characteristics. For example, they sell or "harvest" capital-intensive parts of their business to focus on a division that isn't. They carefully stick to niches to avoid tough competition. Stressing quality rather than volume or dominating a smaller geographic area rather than stretching boundaries are other approaches consistent with limited capital.

They avoid businesses with substantial capital requirements. If the market is substantial—greater than about \$100 million—it will attract huge competitors. Since such competition eventually requires large capital or developmental expenses, a business seeking to reduce capital needs should stay out.

Another strategy is patience. Many business owners find that it doesn't al-

ways pay to be the leader. Waiting to expand can sometimes lower the cost as bigger companies stumble or pioneers fail. Then you may be able to purchase their faltering assets cheaply.

Sometimes the cost of a new technology declines quickly and a little patience pays. One family business we know has "Follow the leader" as its slogan and waits for larger companies to prove the viability of new products and technologies.

While a strategy of patience can be instinctively appealing, it can also be risky. Sometimes not being the leader forecloses possibilities for future profitability—even survival. The answer is to be self-aware and perceptive enough to know whether leadership is motivated by ego or by economic necessity.

Many business owners prosper by leaving expensive, faddish strategies to big-company managers who are oriented to the short term. When the concept is out of fashion, the risks are clarified, and the cost is less, the small owner moves in and renews growing the business. For example, we've seen large international commercial developers lose their shirts by overbuilding. The patient, smaller, local companies, who knew the market better, waited until the large companies wanted out and were then able to pick up some of the properties at good prices and make money on them.

We are impressed by the philosophy expressed by one third-generation business: "We like to have enough reserves to be able to not only survive the down times but to take advantage of them. We've seen over and over the folly of being too aggressive when it seemed the only alternative. We find a whole industry can oversubscribe to a conventional wisdom. We think our greatest advantages are our generations of perspective and patient capital."

In our next column, we'll explore the other options: lessening the family's need for cash and using other people's money.



PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family business consultants.

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CASE STUDY

Anger Over Money Silences Brothers

The three Dorsett brothers are barely speaking to each other. "Phone for you" is about all they have to say.

It hasn't always been like this. For more than 30 years, Tom, Harry, and Bob Dorsett have run the successful manufacturing business founded by their father. For most of that time, they have gotten along rather well. They've had their differences and arguments, but important decisions were thrashed out until a consensus was reached.

Each brother has two children in the business. Tom's oldest son manages the



ILLUSTRATION: JIM STARR

plant, Harry's oldest daughter keeps the books, and Bob's oldest son is a rising outside salesman. The younger children are learning the ropes in lower-level positions.

The problem? Compensation. Each brother feels that his own children are underpaid and that some of his nieces and nephews are overpaid. After violent arguments, the Dorsett brothers just quit talking while each continued to smolder.

The six younger-generation cousins are still on speaking terms, however. Despite the differences that exist among them, they manage to get along with one another. They range in age from 41 down to 25.

The business is in a slump but not yet in danger. Because the brothers aren't talking, important business decisions are being postponed.

The family is stuck. What can be done?



PHOTO: ©NAYNE SOURCE

Set Objective Criteria

Francois M. de Visscher, president of de Visscher & Co., a Stamford, Conn., consulting firm addressing the liquidity and capital needs of families in business:

The first issue the Dorsett brothers should face is setting objective compensation criteria for family members that reflect individual performance regardless of their share of ownership. Since

Tom, Harry, and Bob seem incapable of getting together on this issue, a board of directors or a compensation committee of the board should be put in charge of establishing these criteria.

Several guidelines should be observed.

First, the compensation for each cousin should be in line with industry standards. For example, Tom's oldest son should be paid similarly to managers of plants of similar size and complexity in the same industry. Industry salary data could be obtained from published surveys, industry associations, or a compensation consultant hired by the board.

Second, the current financial realities of the business have to be factored into the compensation plan. If the current business slump is the result of a cyclical downturn, family members' compensation should include a longer-term incentive. For instance, a bonus could be paid to Bob's son, the salesman, based on the number of new accounts opened or the quality of customer service, rather than on sales dollars. If, on the other hand, the slump is the result of a structural downturn and margin pressures, greater emphasis should be placed on cost reduction in the bonus payout formula.

Third, and perhaps most important, bonuses should include a measure of demonstrated teamwork—that is, the degree to which the cousins have helped each other out in the interest of the overall health of the business.

As a result of these considerations, the cousins will end up with different levels of financial reward. I would therefore recommend that the board, its compensation committee, or a compensation consultant clearly explain the basis and outcomes of the compensation deliberations to every family member active in the business.



PHOTO: ©WADE THRALL

Bypass The Brothers

Gerald Le Van, an attorney and head of Le Van Associates, a family business consulting firm based in Baton Rouge, La.:

In this case, we have a solution that was tried and worked. I suggested the Dorsett brothers come up with a dollar figure that represents total compensation for the six cousins during the coming year. Then the six cousins were asked to

divide that total compensation among them as they saw fit, leaving their fathers completely out of the process.

The cousins jumped at the chance to solve the dilemma that so dumbfounded their fathers. The six met as a group first with their family-business consultant, then by themselves. For 90 minutes they debated the contributions each made to the business and arrived at a solution. They concluded that during the current year, each was being paid his or her appropriate portion of the total compensation available to them. They agreed to share the base pay for the following year in the same proportions. However, they came up with a different approach toward bonuses. "We are all blood," they said. "For that reason, we will share any bonuses equally among us, recognizing that all of us must pull together for the success of the company."

They found a unique way to present their solution to Tom, Harry, and Bob. Each of the brothers had a favorite niece or nephew, and the cousins knew it. Therefore, the three favorites were tapped to present the new plan to their uncles. It was accepted, and the brothers are talking again.

It is clear that Tom, Harry, and Bob were still engaged in sibling rivalry. They competed through their children, keeping score by their children's compensation. By moving the compensation issue to the younger generation, some of the brothers' rivalry subsided. In the process, the brothers avoided the issue that had divided them, while passing along the most delicate part of the compensation issue to the next generation. The cousins grew in the process through healthy discussions of each other's contributions to the business. Yet they acknowledged the equal value of kinship when it came to dividing bonuses.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Johnstown, N.Y.



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To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Phyllis M. Barrier

How Business Travelers Can Eat Healthfully On The Road

When you're on a short vacation, eating high-fat, high-sodium foods for a few days probably won't cause you many problems. But for those business travelers who spend a lot of time on the road, combining too much high-fat, high-sodium food with too little exercise over the months and years can be disastrous.

Getting a quick, nutritious breakfast is difficult when you're traveling. If you eat out, choose foods such as pancakes (short stack) and eat them with syrup or preserves and no added butter or margarine. Other possibilities: whole-grain toast or bagels (plain or spread lightly with margarine or jam), hot cereal with fresh berries or fruit, and low-fat milk. Be wary of the "breakfast special," which usually contains foods that are no bargain for your body.

Consider taking breakfast items with you from home or picking them up at a local store when you arrive at your destination. The possibilities include whole-grain, ready-to-eat cereal, banana, and skim or 1 percent milk kept cold in a hotel ice bucket; nonfat yogurt with fruit; or even graham crackers with fruit and skim milk. If your only choice is a continental breakfast, stick with the bran or corn muffins and avoid the doughnuts and pastries.

Midday can be a difficult time for many health- and weight-conscious business travelers, since time and choices may be limited. Happily, fast-food establishments are offering more and more healthful choices for their patrons. Among them: a grilled skinless chicken-breast sandwich, a roast beef sandwich, or a regular-size hamburger with lettuce, tomato, and mustard. Try a side salad with diet dressing or a baked potato that isn't soaked with butter, instead of fries.

Another way to get your daily ration of vegetables is to choose the salad bar. Stick with plenty of the veggies and add small amounts of the protein

choices, such as tuna, egg white, kidney or garbanzo beans, cottage cheese, and boiled ham or turkey. Beware of the mayonnaise-laden salads dripping with fat and calories. Order juice, milk, iced tea, diet soda, or water, rather than a shake or regular soda. Remember that a hot dog from a stand contains twice the fat and salt of a hamburger.

Some national chains offer soup-and-salad or soup-and-sandwich specials at lunch. Be sure to ask for salad dressings on the side and no added mayonnaise on the bread.

If you prefer deli sandwiches, stick with sliced turkey or chicken breast, boiled ham, tuna, hummus (Middle

temptation to overeat. Salad is a good starter while you're waiting for the pizza to arrive.

If you're traveling by car, it certainly is possible to carry along a cooler packed with healthy lunch items. This can give more variety for lunches for the first couple of days on the road. Your cooler could include healthful leftovers, low-fat cottage cheese, three-bean salad, or sardines in mustard with low-fat crackers.

When it comes time for dinner, avoid the "all you can eat" places. Good choices for restaurant dining are places where foods are individually prepared. Even though French restaurants have the reputation for being all cream and eggs, you can easily get broiled fish or seafood with sauces on the side, fresh vegetables, or salad, by making your desires known to the waiter. Be sure to ask how foods are prepared, because sometimes the description on the menu can be deceiving.

Ethnic restaurants that can provide good dinner choices are Indian, Italian, Japanese, and Afghan, among others. Choose broiled seafood, lean grilled kebabs, or spaghetti with clam sauce or red sauce (avoid cream sauces). Of course, portion size is a major factor. Try to get a three- or four-ounce portion (about the size and thickness of the palm of your hand or the size of a deck of cards). If the portion you're served is too large, ask for a doggie bag; you can put the leftovers in your hotel ice bucket and have them for breakfast or lunch the next day.

If you're a frequent flier, don't forget to order a special meal. Depending on the airline you choose, a variety of special options are available, from a seafood or fruit plate to low-calorie or low-cholesterol. These special meals can get your trip off to a healthy start. Usually, you must order them at least 24 hours in advance. The low-cholesterol breakfasts are especially good for saving on fat, cholesterol, and calories.

There are always those times on the road when we don't want to worry about fat and calories. It is probably OK to indulge yourself occasionally, as long as you get back to normal the next day. And take advantage of hotels that offer exercise facilities to burn off those extra calories. **MB**



PHOTO: MICHAEL A. KELLER—THE STOCK MARKET

High-calorie foods like cheesecake lie in wait for the lonely business traveler.

Eastern chickpea spread), or lean roast beef, rather than cold-cut subs, BLT's, or Reuben sandwiches. You can make a big difference in fat and calories by eliminating mayonnaise and cheese from your sandwiches. If possible, try to get less of the above fillings and then fill the sandwich with vegetables: lettuce, tomato, sprouts, or cucumber slices.

What about pizza as another alternative? Stick to pizza with vegetables and skip the fat-laden meats and extra cheese. Be sure to order pizza in the appropriate portion, so there isn't a

Phyllis M. Barrier, M.S., R.D., is a nutrition consultant and nutrition coordinator for a Washington-area health-maintenance organization.

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

TELEPHONE CHARGES

Kids Can Ring Up Big Bills By Calling 900 Numbers

According to a Federal Trade Commission bulletin, some parents suffer phone-bill shock when they receive monthly statements totaling thousands of dollars, based on hundreds of 900-number toll calls.

"This is an ongoing problem," says spokesman Michel Daley of C&P Telephone Co., which serves the Washington, D.C., area. Daley says many parents believe at first that they're being billed for someone else's calls, but, finally, the kids confess.

It's little wonder that children are racking up big bills with 900 numbers. Certain sponsors are putting out alluring and misleading advertising. Here's what the FTC bulletin says:

"Some television promotions encourage children to call 900 numbers for 'free' gifts or stories. Teenagers may call 900-number 'talklines' to chat with other teens—usually at a cost-per-minute charge."

The FTC urges parents to explain the



PHOTO: ©CHARLES GUSTON—UNIPHOTO

Teenagers and 900 numbers go together like matches and gasoline.

900-number (in some cases a 700-number) situation and make sure no one makes any such calls without permission.

"If you have problems with charges on your phone bill" for 900- or 700-number calls, the bulletin advises, "write to your telephone company immediately. . . . You can ask the phone company to delete the charge, although it is not legally obligated to do so."

C&P Telephone's spokesman Daley says: "We handle these 900-number complaints on a case-by-case basis. In some instances, we will delete the call from the bill and bounce it back to the sponsor."

Most of these calls are long distance, and, an FTC spokesman says, "AT&T and some of the other carriers have in-house orders not to disconnect phones for failure to pay on these 900-number big charges."

If you have children who may be tempted to call toll numbers, it may pay you to check your telephone company's policy on contested charges for 900-number calls.

PERSONAL FINANCE

Do You Need A Broker— Or An Asset Manager?

When you look for a stockbroker, you must understand that there is always a potential conflict of interest. "Brokers live off their commissions," says Sheldon Jacobs, publisher of *No-Load Fund Investor*, a newsletter about mutual funds; "and as a result, they are under great pressure to buy and sell securities to generate the maximum commission income."

Most stockbrokers give their clients outstanding service in suggesting stocks to hold for the long haul, but some go so far as to practice "churning," which means that they move you in and out of stocks quickly and so chalk up more and more commissions.

"One way to eliminate any vestige of conflict of interest," says Michael Roberts, a vice president of Prudential-Bache Securities Inc., "is to have your funds managed on a fee basis instead of commissions."

Here's how it works. You and your broker agree that a certain portion, or perhaps all, of your investment assets will be under a formal management plan. You fill out a questionnaire that is designed to create a profile that reflects your investment goals, risk tolerance, and outlook on the economy and the financial markets.

The answers to these questions are used to generate an investment policy statement that spells out how your assets are to be managed. You are given the names of three independent asset managers—specialists not available to the general public, with offices most likely in New York, or perhaps in some other large city—whose investment style and philosophy conform most closely to your policy statement. The manager's function will be to make the crucial buy-sell decisions so your assets will grow in value. The broker's job, as

your personal agent, will be to monitor the manager's success or failure in making money for you according to the game plan.

Some brokerage firms also offer fee-based investment management themselves—some through computerized programs, others through specially trained individuals.

Fee-based investment management is not for pikers. You must have a minimum of \$50,000 to \$100,000 to enroll in most programs. The annual fee (collected in quarterly increments) is usually 3 percent of the account's assets, divided between the broker and the asset manager in whatever proportions they have agreed to.

Investors who may not want to commit \$50,000 or more to an asset manager should select their own individual broker with great care. Select two or three conveniently located firms and ask each firm's manager to indicate a broker on that firm's staff who fits your needs, risk tolerance, and the like. Then interview each one to see how he or she might fit with your plans, and make your pick.



Peter Weaver is a Washington-based columnist on personal finance.

BUSINESS TRAVEL

The Lowdown On Upgrades

Randy Petersen, president of *Frequent*, a monthly newsletter for members of frequent-flyer programs, has figured out legitimate ways to travel first class without paying much.

For example, let's say you have a one-class upgrade bonus you want to use for travel to Europe, Latin America, or the Orient. You start with a coach ticket, and an upgrade normally puts you in business (or executive) class. But you want to fly first class.

If you are in an area with two or more airports, such as Los Angeles, New York, or Washington, you ticket yourself from an outlying field into the one where the long flight departs. These short hops usually have only two classes—coach and first class. When you transfer to the long hop, they continue to honor your first-class status, allowing you to leap-frog over executive or business-class seats.

"You really don't have to go to the other airport," Petersen says. "They



PHOTO: GLEN FEINGOLD/UNIPHOTO

Flying first class needn't be costly if you take advantage of the opportunities airlines offer for low-cost upgrades.

just discard the short, unused portion of the fare." And the short-haul fare costs a lot less than upgrading from coach to first class on your main flight.

Another way to save money, according to Petersen, is to buy a first-class upgrade instead of using your mileage bonus to get one. You buy a coach ticket and then purchase a special frequent-flyer first-class upgrade sticker, which costs from \$15 to \$45, depending on how far you're going. Using your mileage bonus to make the upgrade would, under most programs, erase 10,000 miles that you could otherwise apply toward a free flight. And the odds are that your free ticket is going to be worth a lot more than what you spend for the upgrades.

Petersen's newsletter covers all sorts of frequent-flyer ploys, including hotel, rental-car, and other combination deals. The subscription price is \$28 a year. You can get free samples and more information by writing to Frequent Publications, 4715-C Town Center Drive, Colorado Springs, Colo. 80916.

ESTATE PLANNING

Protection For Your Heirs When You're Terminally Ill

You may have a will, a trust, and other documents to handle your final finances. But do you have a "living will" and an appointed health-care "agent"?

The recent Supreme Court decision in the Nancy Cruzan case comes as a warning that we should add another document to our estate-planning papers: a detailed set of instructions expressing our desires if we are terminally ill or in a prolonged, no-hope coma.

Nancy Cruzan, 32, has been lying in a Missouri hospital for seven years in a vegetative state that no one thinks she will ever come out of. Her family wanted to pull the life-support plugs, but Missouri courts wouldn't allow it.

The case went all the way to the U.S. Supreme Court. A decision there also went against the family because there was no "clear and convincing evidence" that Cruzan had made it known that she didn't want to be kept alive under these circumstances.

Because she is in a state hospital, Cruzan's family is not burdened with catastrophic bills. But many other families are. According to (recently retired) Justice William J. Brennan Jr., in a dissenting opinion, as many as 10,000 U.S. patients are being kept alive in circumstances similar to Cruzan's.

The cost of a complicated life-support system for some of these patients, according to Austin, Texas, attorney Rhonda Brink, "can run into the tens of thousands of dollars a day, completely wiping out family assets in a short period of time."

To protect yourself against this type of situation, Brink says, you should talk with your doctor and family to make your wishes known. However, that is not enough. You should put your wishes in writing.

Then, to nail it down, you should consider having an attorney who specializes in estate planning draw up appropriate documents (using various state forms and guidelines wherever possible) that may consist of or contain:

- A living will, which many states recognize as permission to pull the plug or withhold forced nutrition if you are in a terminal condition from an illness or accident.

- A durable health-care power of attorney that consents to someone else's making medical decisions for you when you are unable to do so. This is especially important when the patient is in a vegetative state but not officially considered "terminal."

- A predesignated choice of guardian or conservator to handle all of your affairs when you are unable to do so. With this document, if court proceedings ever become necessary—if, say, there is a family disagreement over your care—you will already have chosen a guardian or conservator who understands your wishes as expressed in your living will and durable health-care power of attorney.

With these documents added to your will and other papers, doctors, hospitals, the courts, and your family should have what many jurisdictions seem to require: "clear and convincing evidence" of what you want done when you cannot communicate.

PERSONAL FINANCE

Domestics, Nannies . . . And Now It's Bookkeepers

For two-income families, paying the bills, balancing checkbooks, and keeping on top of credit-card accounts can be a real drag.

Who does the work—he, she, or both? Mistakes are made, bills go unpaid. The resulting chaos can provoke all sorts of accusations and recriminations.

"Money and sex," says psychologist Victoria Felton-Collins, author of *Couples & Money* (Bantam), "are power tools, wedges partners use to gain leverage over each other."

With this kind of dual-income scenario on the rise, business for personal bookkeepers is booming. "We are getting a lot of new business from working couples," says Gail Sbani, president of The Balancing Act bookkeeping company in Sterling, Va.

Sbani's company pays all the bills, balances the checking accounts, examines credit charges to make sure they're correct, posts all the tax information, and mails a monthly cash-flow and budget analysis.

What's the cost? Depending on where you live, and the complexities of your account, you pay from \$25 to \$35 an hour for three or four hours of work each month.

If personal bookkeepers are scarce in your area, you might try a small accounting firm. Handing the job over to a big CPA outfit, however, could be overkill. It usually costs too much, and they'll probably hand the job over to an in-house bookkeeper anyway. ■

INVEST IN FRANCE

Think Europe, and Paris comes to mind. And yet not everyone is aware that extending all around Paris is a region that's of capital importance to the French economy... not to mention those smart investors who want to succeed in Europe. This region called Paris Ile-de-France Region, a true heartland of power and economic vitality for the entire French nation. Today, Ile-de-France means a region with a population of 10,000,000, producing no less than a quarter of France's GNP, hosting the corporate headquarters of 40% of French and foreign companies, and concentrating 50% of France's research and development potential.

Paris Ile-de-France Region is the French region with the best connections to Europe and the world (where else in Europe but from Paris can you reach to Washington in 4 hours?). Some 2,500 flights a week, of which 245 go to North America (Orly + Charles-de-Gaulle airports), make the Ile-

de-France the "Gateway to Europe". So, it's no accident if Paris Ile-de-France Region has become the world's biggest convention center.

And even less an hazard if 800 American companies have already chosen to settle here.

Just consider: DEC, Hewlett-Packard, IBM, Kodak, 3M, Nike, General Electric, Gore, Hertz, Raychem, Apple, Johnson, Polaroid... And that's only naming a few! Of course, the region has its own distinctive charm. But it took more than that to put the Ile-de-France where it is today. No other region can boast its unique infrastructure of urban centers all around Paris: 5 new towns - Cergy-Pontoise, Evry, Marne-la-Vallée, Melun-Sénart, Saint-Quentin-en-Yvelines, as well as the Charles-de-Gaulle Airport complex and the Paris Nord II Roissy International Business Park. All are linked directly to Paris, its stations and its airports. They offer companies a unique range of settle-

ment possibilities: plots of land with all utilities or turnkey buildings (offices, business parks, research centers, logistics facilities, ...).

But above all, if you still think that an investment in Europe is a paperwork nightmare, it's time you contacted the **Agency for Corporate Development**. The Agency was created by the Ile-de-France Regional Council and its partners in order to provide you with personalized assistance: economic data, information on infrastructure and real estate, site selection, administrative follow-up.

For further information on investment opportunities in Ile-de-France contact our representative in

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For Your Tax File

What you need to know to keep taxes from overtaxing you.

By Gerald W. Padwe, C.P.A.

DEPOSITS

Liability Or Income?

In your business, do you obtain deposits for goods or services from customers? If so, you will want to consider a recent Supreme Court case. Careless planning could lead to deposits being considered taxable income when they are received.

This case concerned an electric utility company that undertakes a credit check on all new customers. The company refuses service to those with credit problems unless they deposit twice their es-

timated monthly bill "to ensure prompt payment." The deposit is refunded when the customer terminates service; if the customer makes nine consecutive, timely monthly payments; or if timely payments are made for 10 of 12 consecutive months.

If and when the deposit is refunded, it will be paid to the customer by cash or check, or credited against future utility bills, at the customer's option. The deposits are not put into a separate bank account, but are commingled with all other receipts paid to the utility.

Under state banking regulations, the deposits are treated on the books as liabilities of the utility company, payable to the customers who have made them. This is similar to a bank depositor who deposits \$1,000 in his or her checking account at a local bank. Though on deposit at the bank, the \$1,000 is not the bank's property—it is the depositor's. He or she can walk in at any time and demand all or part of that money back, just by presenting a check. In short, the bank has a \$1,000 asset, offset by a \$1,000 liability, payable to the depositor on a moment's notice.

According to the Internal Revenue Service, however, there were enough indications that the utility was treating the deposited funds as "its" money, and the IRS insisted that the deposited funds be treated as taxable income to the utility, with any repayments in later years being permitted as deductions.

These deposits are nothing more than an advance payment for electricity, said the IRS. It argued that the sole purpose of the deposits is to ensure prompt payment of electric bills.

The deposits were computed based on estimated monthly electric services to be provided, and a substantial part of the deposit refunds were used to offset bills for future services. No attempt was made to segregate the funds and account for them separately, as would normally be the case where a liability fund is established. The deposits were, however, like any other receipts, used for current working capital.

In this case, the IRS lost its battle in the Tax Court, then in the seventh Circuit Court of Appeals, and finally in the U.S. Supreme Court. The Supreme Court decision was 9-0 against the government. Granted, said the high court, the utility derived an economic benefit from having the use of the deposited funds. But the critical issue goes to the parties' rights and obligations when the payment of the deposit is made.

In the case of these deposits, the depositor always retained the right to receive back the deposit. Within limits,

even the timing for having the deposit returned was controlled by the depositor—by terminating service, proving credit worthiness, or paying nine months' bills promptly. For the deposit to be an advance payment of income to the utility, the company would need to show that by providing bargained-for services, those funds were its to keep.

To agree with the IRS under these facts, particularly because the utility could use the funds in its day-to-day operations without segregating them in special accounts, would lead to the conclusion that funds obtained in such common commercial transactions as loans should be considered income to the borrower. That much stretching of tax-accounting principles was more than the high court could swallow. ■



PHOTO: GARY OUTLAND—UNIPRESS

Utility's liabilities: customers' deposits.

INTEREST VS. PAYMENT

Creating A Suspense Account

Last month, you read in this column that the IRS agreed with a 1989 Tax Court decision allowing an individual taxpayer to designate a payment as interest only, not as payment of the tax.

The result was to allow the taxpayer to obtain a current deduction for the interest paid while contesting the asserted tax deficiency in court.

The IRS now has an additional word. Its own internal procedures require that when funds are advanced as interest only, they should be placed in a "suspense" account, and written notice should be given the taxpayer that the money is not being credited as payment of interest. In this way, the taxpayer may request return of the money.

Failure by the IRS to use that procedure is what led to its agreement with the Tax Court decision. Now the agency says when it follows its own procedures, and the taxpayer does not request a return of the "interest," it still will treat the taxpayer's funds as a partial tax payment and will disallow a deduction for the interest paid. In effect, the IRS will continue to fight against the current decision. Note that the Tax Court put no such restrictions in its original opinion.



Gerald W. Padwe is associate national tax director for professional practice for Deloitte & Touche. Readers should see tax and legal advisers on specific cases.

\$200 billion in the red and they want to run your business?



The federal budget deficit is actually much higher than that. Having made a mess of the budget, Congress is on the hunt for new revenues and business is one of the targets. Congress' record in trying to live within a budget is dismal. Raising taxes isn't the answer; it's got to stop.

The U.S. Chamber of Commerce is the definitive

voice for business in Washington, a federation of 180,000 businesses large and small, state and local chambers, trade and professional organizations as well as American Chambers abroad.

It's a powerhouse no special interest group can match.

Right now, the Chamber is working for federal budget reform and spending restraint

without new taxes. And fighting for capital gains tax cuts and reducing the estate tax burden on family businesses. The list goes on and on.

Give your business a fighting chance. Call 1-800-638-6582 and join the U.S. Chamber of Commerce. Do it today. Membership is an investment in the future. Government interference is a price you can't afford.



**Join the U.S. Chamber.
Because the fight goes on.**

Franchising

Franchises on wheels are taking services home to convenience-minded customers.

By Meg Whittemore

Doorstep Decorators

Time-restricted consumers of the 1980s proved that franchised businesses offering shop-at-home convenience and to-your-door delivery are here to stay. Businesses offering home maintenance thrived, as did companies that brought the showroom to the customer, such as Decorating Den, a decorating franchise in Bethesda, Md.

Franchising a home-decorating business is not an easy undertaking. "I couldn't stop thinking, 'You can't franchise creativity,'" says James S. Bugg, who bought the company six years ago.

Apparently, you can. Since 1984, Decorating Den has grown to more than 1,000 outlets in the U.S. and abroad.

Decorating Den franchisees travel to customers' homes in vans equipped with up to 5,000 samples of wall cover-



Kitchen Tune-Up's David Haglund.

ings, fabrics, carpeting, and accessories. A franchisee invests \$10,000 to

\$30,000 depending on the size of the territory. Costs for the van lease and working capital are extra.

Virtually every aspect of maintaining a home can be handled through a franchised business, including redoing your kitchen. Kitchen Tune-Up, based in Aberdeen, S.D., offers kitchen face lifts for \$95 to \$200, plus materials. Franchisees use a special oil cleaning and polishing solution to restore cabinets. New hardware, lubricating and straightening drawers, and buffing and polishing counter tops round out the services.

"Often our customers are shocked to find out their cabinets can look like new again without investing thousands of dollars for new ones," says David Haglund, founder of the 2-year-old franchise. Kitchen Tune-Up franchises cost a total of \$10,000, which includes fees, training, and equipment. **NB**

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Where I Stand

This Month's Issue: **Economic Outlook**

Please give us your economic outlook for next year. We'll include the findings of this survey in our January cover story on the

small-business economic environment in 1991. **Simply fill out the attached postage-paid card or fax this page to 202-463-5636.**

1. How long do you think the current economic downturn will last?

- ☐ Six months
☐ One year
☐ Longer than one year

2. What plans do you have for your work force in 1991?

- ☐ Add employees
☐ Lay off employees
☐ No change

3. What are your company's plans for capital expenditures?

- ☐ Increase
☐ Reduce
☐ No change

4. What do you anticipate for your company's sales during 1991?

- ☐ Increase
☐ Decrease
☐ No change

5. What do you expect will happen to interest rates in 1991?

- ☐ Increase
☐ Decrease
☐ No change

6. How would you characterize your 1991 business outlook?

- ☐ Optimistic
☐ Pessimistic

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In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

CONSULTING

Getting To The Wedding

After reading "Romancing A \$30 Billion Market," in the June *Nation's Business*, I am anxious to start my own wedding-consultant business. Where can I get information on how to start such a venture?

D.L.G., Laguna Beach, Calif.

(Similar questions from M.S., Columbia, Mo.; J.G., Channelview, Texas.)

Wedding consultants are expected to be in great demand in the 1990s, says Eileen Monaghan, vice president of the Association of Bridal Consultants. The association, which has 850 members in 46 states and eight foreign countries, offers information on starting a wedding-consulting business.

Each year the organization conducts 10 professional-development seminars throughout the country as well as one in-depth conference on the wedding industry.

The association's annual fees are \$75 for a person setting up a business and



ILLUSTRATIONS: DAVE ALLEN

\$125 for an established consultant.

For more information, contact Eileen Monaghan at the Association of Bridal Consultants, 200 Chestnutland Road, New Milford, Conn. 06776; (203) 355-0464.

Another potentially helpful source for you is the National Bridal Service, the trade association for the industry. For \$65, the organization will send you a packet of information on capital needs and industry market statistics.

Write or call the organization at 3122 West Cary, Richmond, Va. 23221; (804) 355-6945.

FARMING

From Snail To Escargot

Do you have any information about how to start a snail-raising business for the sale of escargot to restaurants?

S.H., Glade Park, Colo.



Requests for information on snail raising have risen in recent years, says a representative of the Aquaculture Information Center. *Raising Snails*, a free publication from the Center, contains comprehensive information on the business. To order, write to the Aquaculture Information Center, National Agriculture Library, Bibliography Department, 10301 Baltimore Blvd., Beltsville, Md. 20705. Ask for Special Reference Brief 88-04, *Raising Snails*.

The American Fisheries Society also provides information, but only to its members. To apply for membership, contact the organization at 5410 Grosvenor Lane, Suite 110, Bethesda, Md. 20814; (301) 897-8616. Membership fees vary, depending on whether the applicant is an individual, a business, or a library, or falls into some other category.

SERVICES

Taxes At Home

I am interested in preparing individual income taxes in my home. Where can I find information to get started, and what sort of liability occurs when I sign my name to the return?

S.D.V., East Berlin, Pa.

The National Association of Tax Practitioners offers workshops on how to get started, a monthly newsletter on record

keeping, and a tax-research center for its members. Membership is \$75 for the first year and \$60 a year thereafter.

David Mellem, assistant director of membership services for the association, says liability exists if you advertise your services. Specifically, if you are paid to prepare a return and either neglect to sign your name to it or omit your Social Security number, the Internal Revenue Service can fine you \$50 for each oversight. Also, if an audit discloses that you knowingly understated your client's income, you can be fined \$1,000.

Mellem suggests that you contact an information specialist within your state government to determine which department handles licensing for such work.

For more information, contact the National Association of Tax Practitioners, 720 Association Drive, Appleton, Wis. 54914-1483; (414) 749-1040.

RETAILING

Eye Upon The Doughnut

Please tell me where to get information on opening a doughnut shop.

K.B., Rahway, N.J.

(Similar question from P.L.D., Tomahawk, Ky.)

The Retail Bakers of America offers would-be bakers a free start-up kit. It



has information on equipment, the costs of opening and running a retail bakery, projected sales, and a list of books and tapes that may be helpful. Contact the association at 6525 Belcrest Road, Suite 250, Hyattsville, Md. 20782-2003; (301) 277-0990.

SERVICES

Cutable Stories

We are trying to find an association of newspaper-clipping agencies covering the United States.

Z.M.W., Benmore, South Africa

There are several companies that clip published news accounts according to topic or geographic region. A comprehensive description of all national and regional clipping services is contained in *Professionals' Guide to Public Relations Services*, by Richard Weiner. Now in its sixth edition, the book is available through Amacom Publishing for \$95.

To order the reference book, you should write or call Amacom at Box 319, Saranac Lake, N.Y. 12983; (518) 891-5510.

GRAPHIC ARTS

Supplies For Printers

I am in search of wholesalers, manufacturers, and distributors who carry lines of printing equipment and supplies such as presses, cameras, cutters, folders, drills, etc.

C.W., Dallas

Start by contacting Patty Stuhltrager, membership coordinator with the Graphic Arts Suppliers Association, 1900 Arch St., Philadelphia, Pa. 19103; (215) 564-3484. She will send you a free packet of information on manufacturers and dealers in the printing industry whom you may contact about equipment.

Another source of listings of equipment—both new and used—is the *Printer's Hotline*, a 100-page weekly magazine published by Heartland Communications, in Fort Dodge, Iowa. It is mailed to 125,000 individuals and busi-

ENTERTAINMENT

Sounds Of The Past

I run a business that sells music from the 1920s through the 1960s. I want to reach customers 55 or older. How can I get lists of names and addresses of people in that age group?

B.R.J., Jenks, Okla.

Direct Mail List Rates and Data is an 1,800-page reference book updated and published six times a year by the Standard Rate and Data Service, in Wilmette, Ill. It contains information on available mailing lists, including demographic and income breakdowns, list owners and costs, and details on purchasing.

The reference work is available in



many libraries. For purchasing information, call Rosemary LaCroix in the customer-service department of the Standard Rate and Data Service, at (800) 323-4588. A one-year subscription to the reference work (six issues) costs \$287. A single volume costs \$139.

INTERNATIONAL TRADE

Exporting To America

We wish to export various products to the U.S. How do we locate importers?

M.S.G., Calcutta, India

For referrals to U.S. importers, contact Eugene Milosh, president of the American Association of Exporters and Importers, 11 West 42nd St., New York, N.Y. 10036; (212) 944-2230.

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact *Your Small Business Survival Guide*, at \$3 a copy. To order, write to the Circulation Department at the address above. **MB**

THIS MONTH'S MOST-ASKED QUESTION

Home Is Where The Work Is

By 1992, nearly 31 million Americans will be working at home either part time or full time, according to LINK Resources Corp., a New York firm that researches work-at-home trends.

The volume of questions to Direct Line on how to start a business at home suggests that many of our readers would like to trade daily commutes and 9-to-5 hours for a corner of the house and a more flexible work schedule.

Before becoming a full-time home worker, however, you should do some research. Begin with "Look Who's Working At Home," the cover story in the October 1989 issue of *Nation's Business*. (To order a reprint of the article, see Page 73 in this issue.)

You should examine your work habits thoroughly and honestly. Are you a self-starter? Are you confident and persistent? Can you communicate effectively? Can you tolerate isolation? You should not expect working on your own to be simply a risk-free escape from the frustrations of working for someone else. To succeed, you must strike a balance between your work obligations and your home life.

For more information, you can contact the National Association for the Self-Employed, P.O. Box 612067, Dallas, Texas 75261; (800) 232-6273. The association provides free booklets on self-employment and also offers its 244,000 members various professional services.

Working From Home, by Paul and Sarah Edwards (Jeremy B. Tarcher Inc., \$11.95), covers virtually all aspects of setting up a home-based business. It is available in bookstores or by writing to Jeremy B. Tarcher Inc., 9110 Sunset Blvd., Los Angeles, Calif. 90069.

Running a One-Person Business, by Claude Whitmyer, Salli Rasberry, and Michael Phillips (Ten Speed Press, \$12.00), offers practical information on setting up a personal business. The book is available from Ten Speed Press, P.O. Box 7123, Berkeley, Calif. 94707.

In the August issue, Direct Line offered information on starting a recycling program or business. A publication listed as a resource—*How to Start and Operate a Recycling Business*—is now no longer available. Instead, we recommend that interested readers contact the National Recycling Coalition, Inc., for the names of recycling businesses or programs in their states. Write or call the coalition at 1101 30th St., N.W., Suite 305, Washington, D.C. 20007; (202) 625-6406. See also "Recycling? Plan Ahead," on Page 10.



nesses interested in the printing industry. An annual subscription costs \$39 for second-class delivery, \$89 for first-class delivery.

Contact Carmen Fitzgerald, sales representative, for more information, at (800) 247-2000.

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COMMENTARY

Congressional Alert

Social Security Tax Cut

The Social Security (FICA) payroll tax rate has never been higher. Now set at 7.65 percent for employer and employee alike, it has an adverse impact on each and collects vastly more than is necessary. If current law is



PHOTO: © GARY NELSON—THE STOCK MARKET

not amended, by 2014 roughly \$2 trillion in excess taxes will have been paid.

Unlike income taxes, FICA taxes constitute an immediate and inescapable cost, payable whether a business is flourishing or floundering; labor-intensive businesses are especially burdened. High payroll taxes increase the cost of hiring and constrain overall financial capacity and competitiveness in the global marketplace.

A recent proposal by Sen. Daniel P. Moynihan, D-N.Y., would return Social Security to its traditional pay-as-you-go basis by gradually reducing the FICA tax rate over five years. The U.S. Chamber of Commerce supports this idea, which would alleviate a tax burden on workers and employers without threatening the integrity of the Social Security system. Reducing FICA taxes also would provide an economic boost at a time when the nation is heading toward a recession.

Contact your representative and senators. Urge support for the Moynihan proposal to reduce the FICA tax rate.

Fairness In Benefits

Sens. Orrin Hatch, R-Utah, and Nancy Landon Kassebaum, R-Kan., have introduced fair and balanced legislation designed to clarify provisions of the Age Discrimination in Employment Act regarding benefit plans for



PHOTO: © BUSHNIPS—THE STOCK MARKET

employees. Their measure, S. 2831, would protect older workers by outlawing arbitrary age discrimination in employee benefits. It also would preserve the right of employers to coordinate employee-benefit plans among age groups, avoiding costly duplication of benefits.

Other proposals, however—S. 1511 and H.R. 3200—would prohibit employers from targeting employee-benefit plans to various age groups.

The U.S. Chamber of Commerce opposes these latter measures because they would likely lead to benefit reductions for all workers and require costly plan changes. The Chamber strongly supports S. 2831 as a way to ensure fairness for older employees while preserving long-standing benefit practices designed to serve all workers. Action on any of these bills may occur at any time in September or October.

Urge your representative and senators to support legislation that would preserve the right of employers to coordinate employee-benefit plans among age groups.

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Health-Care Tax Deduction

Congress is soon expected to consider proposals to extend and expand the tax deduction for self-employed individuals' health-insurance costs.

Currently, self-employed business owners may deduct only 25 percent of



PHOTO: © JEFF ZARUBA—POLAR INC.

their health-insurance expenses, while incorporated businesses may deduct 100 percent. The U.S. Chamber of Commerce believes this is a major reason why the self-employed are the least likely to purchase health insurance for themselves or offer it to their employees. At present, only 29 percent of sole proprietorships with one to nine employees have health coverage. In contrast, 70 percent of similarly sized incorporated firms (which receive a 100 percent deduction) have health insurance.

Although the tax deduction enjoys broad support in Congress, it will expire Sept. 30 unless the tax code is amended. The Chamber strongly believes that this important deduction should be increased to 100 percent and extended permanently. The deduction helps increase access of the self-employed to health insurance and is a starting point for resolving the health-care crisis.

Contact your representative and senators. Urge support for extending and expanding the health-care tax deduction for the self-employed. ■

Editorial

U.S. Energy Problems Won't End When The Middle East Crisis Does

Many Americans believe that resolution of the Persian Gulf crisis, whatever form that takes, will restore energy supplies to normal. We make a serious mistake as a nation, however, if we fail to realize that our energy-supply problems began long before Saddam Hussein attacked Kuwait, and that they will not end with his inevitable defeat.

The U.S. Chamber of Commerce puts it this way:

"What is happening in the Persian Gulf is the exclamation mark on prior warnings—the U.S. is overly dependent on foreign sources of oil."

Such statements often draw the response that the solution should be cutting demand through conservation, rather than increasing supplies.

Says the U.S. Chamber: "Further progress can and should be made on the demand side, and no reasonable person can oppose common-sense conservation. However, we also believe that no reasonable person can oppose increasing supplies, either. New supply-side measures are needed and long overdue."

The business organization urges that the federal government take immediate steps that are compatible with sound environmental policies to increase energy supplies. These are the steps, with an explanation of why they are on the list:

Provide access to the Outer Continental Shelf (OCS). The OCS contains 28 percent of the nation's estimated reserves of oil and natural gas. OCS wells are responsible for 14 percent of the crude oil and 29 percent of the natural gas produced in the U.S.—all without spills or other environmental accidents. A government moratorium bars new leasing and test-drilling on huge portions of the OCS that include much of the Pacific coast, the eastern Gulf of Mexico, and the New England coast. Many of these areas could be utilized for domestic energy needs without significant risk to the environment. The truly environmentally sensitive areas can be left alone.

Provide access to public lands. Many public lands,



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PHOTO: RICHARD QUATAERT—FOLIO INC.

A supply-oriented energy policy is critical to America's ability to meet its expanding need for fuels for transportation and for electricity.

such as the coastal plain of the Arctic National Wildlife Refuge (ANWR), are rich in oil, natural gas, coal, and other needed resources. These resources belong to—and should be made available to—the American people. This can be achieved in an orderly, environmentally benign manner. In recent years, the longstanding national policy of multiple use of public lands has been under attack, and the lands have been increasingly closed to economic activities.

Bring energy projects on line. More and more, state and local governments are tying up energy projects in masses of red tape. The Point Arguello field off the coast of California is capable of producing up to 100,000 barrels of oil and 30 million cubic feet of natural gas per day. It has been ready to go on line since 1987. More than 450 different conditions and requirements were met during years of permit processing, yet the project is still being delayed by Santa Barbara County. A mechanism must be established to assure that projects are brought on line without undue delay if regulatory conditions are met. No single local jurisdiction should be allowed to dictate national interests.

Remove barriers to energy supply. The U.S. may need as many as 100 new, large, base-load electric power plants by the year 2000 if electricity demand continues to grow at 2 to 3 percent a year. Even if only half this number is required, it is still a formidable task. The demand can be met in a timely and cost-effective manner only if existing regulatory barriers are removed. Specifically, we need to revitalize the nuclear-power option, move ahead with clean-coal technology, and make greater use of natural-gas reserves. It is criminal to have the public pay higher prices for delays from repetitive, petulant intervenors.

Those proposals should have had high priority before the Middle East crisis. Developments in that region give them an urgency that elected officials cannot responsibly ignore. **MB**

Free Spirited Enterprise

By Janet Willen



ILLUSTRATIONS: JIM CHONG

A KIDS' WORLD?

What's the matter with kids today? Not much, if you listen to Nasir Ashemimry. The kids he hears from are working hard and doing well.

Ashemimry's company, **Business\$ Kids**, of Coral Gables, Fla., teaches children, ages 8 and up, how to create and operate a profitable business.

At the heart of his enterprise is the **Business\$ Kit**, which contains material to help youngsters start and organize a business, and market their products. Purchase of the kit includes a subscription to a quarterly newsletter, access to a hotline, and membership in **Business\$ Kids**.

Ashemimry says many youngsters started successful businesses with the kit, including a 16-year-old with a catering business, a 10th-grader with a tutoring service, and an 11-year-old with a flower-subscription service.

For somewhat older children, **Miranda Associates**, of Washington, D.C., offers the **Job Search Organizer**. This comprehensive guide helps college students plan their job search from the early stages through the interviews.

Jack O'Brien, who created the step-by-step guide, says,

"It may be the only thing that prevents the graduate from having to move back in with his or her parents."

Because work doesn't stop at the office, **Family Learning Systems**, of Akron, Ohio, wants to lighten the load at home.

Its system, **Knowbot Cards**, uses a flash-card approach to teaching school-age children how to handle



their chores.

In each packet are seven brightly colored cards, each describing a specific task, like cleaning the bedroom or taking a bath. The card explains each chore in terms children understand. For example, "Vacuum the carpet or use a dust mop on the floor to get rid of all the 'grungies.'"

We suspect these cards are not for children only.

AFTER A FASHION

In last November's column we told you how to tie the Shelby necktie. Now we have something for the fashion-conscious executive who



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Those figures are from **Smart Moves For The Relocating Family**, by Jane E. Holston and Gail Benson, published by Runzheimer International.

The book is a step-by-step



guide organized according to all aspects of a move. It describes getting notice of the transfer, house hunting, packing, traveling, finances, and settling in. The authors have advice for every member of the relocating family—even Rover, although "some pets travel better than their people." ■

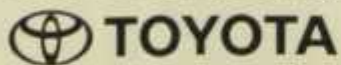
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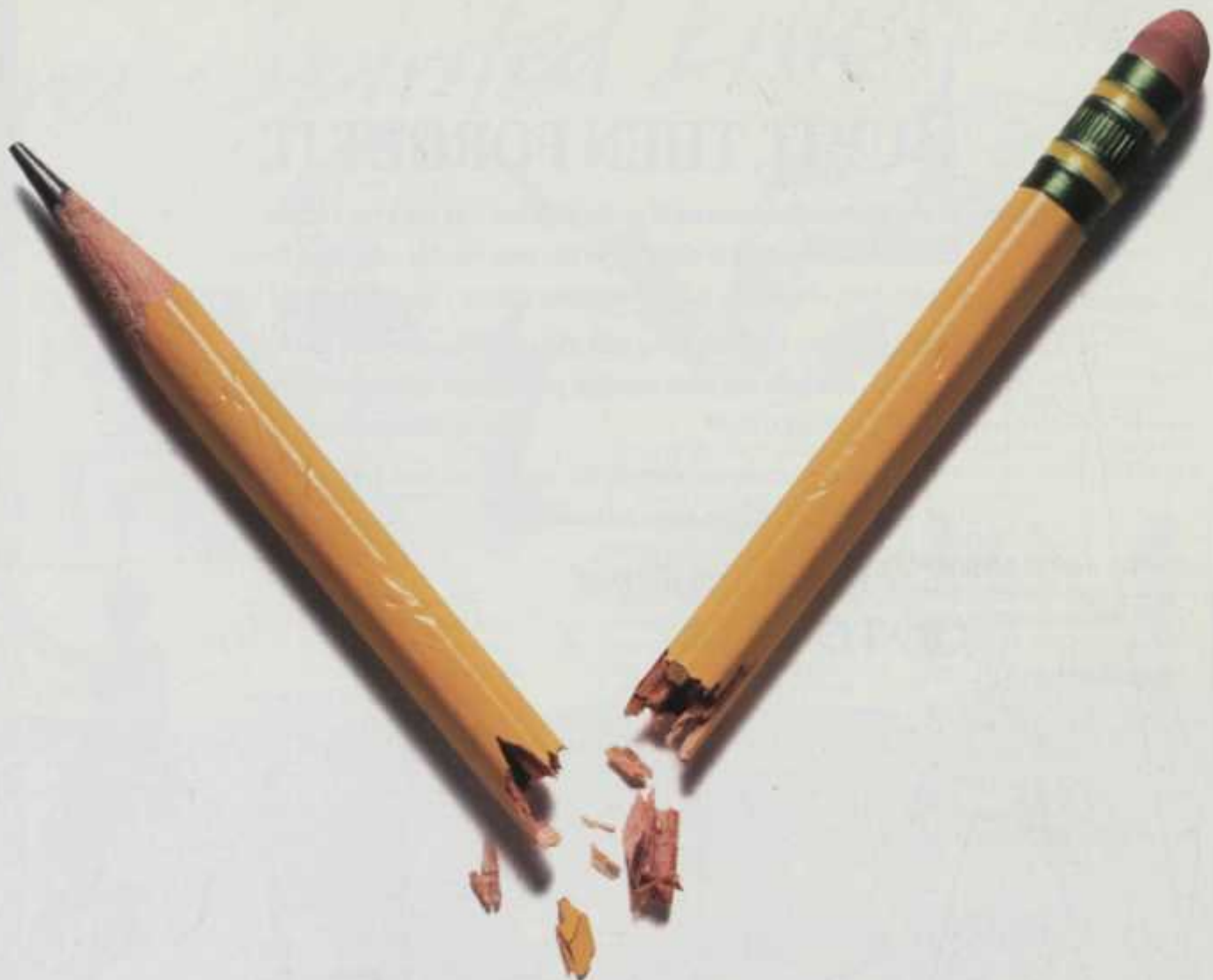
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